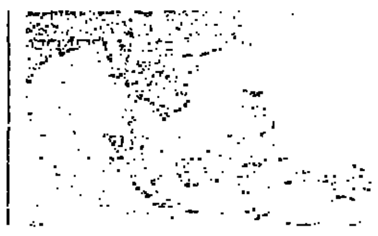
FINANCIAL TIMES

Polish telecoms

Facing competition from within

Page 3



Welfare

Breaking the dependency cycle

Martin Wolf, Page 14

Asia in Crisis

How the ripples spread

Page 8

Global Business

International strategies bring risks and rewards

Survey, separate section

World Business Newspaper http://www.FT.com TUESDAY JANUARY 13 1998

WORLD NEWS

Iraq risks UN stand-off by blocking arms inspections

Iraq is to block the work of a UN arms inspection team headed by American Scott Ritter, whom it has accused of spying for the US. The move is likely to provoke another stand-off with the UN, whose secretary-general, Kofi Annan, last night met chief UN arms inspector Richard Butler to discuss developments. "We have not decided to halt any inspections", Mr Annan said. Page 16; Envoy fears conflict, Page 6

US envoy steps in
Robert Gelbard, chief US envoy to the Balkans, intervened in the Yugoslav republic of Montenegro, where a demonstration raised fears that Belgrade would declare a state of emergency. Page 3

Japan apologises
Japan apologised officially for the treatment of British prisoners during the second world war, but one British veterans' group dismissed the move as "an insult".

New moves on N Ireland
Britain and Ireland mapped out proposals to revive the struggling Northern Ireland peace process. They proposed new structures involving London, Dublin and Belfast. Page 16; Details, Page 10

Netanyahu survives vote
Israeli prime minister Benjamin Netanyahu survived a no confidence vote – the first since his majority was reduced to one by the defection of foreign minister David Levy and his followers.

Reparation for E Europe Jews
Germany said it had reached an agreement with the Jewish Claims Conference on paying DM200m ($110m) restitution to eastern European Jewish survivors of the Holocaust. Page 2

Yeltsin's first 1998 meeting
Russian president Boris Yeltsin will hold his first official 1998 meeting at his holiday retreat. Ill since December, he has scarcely been seen in public this year. Page 3

German pay call rejected
German interior minister Manfred Kanther rejected calls for a 4.5 per cent pay rise for some 5m public sector workers. Demands for such a rise were "not in touch with the real world", he said.

Spanish miner killed
Tension rose in a Spanish coal dispute after a miner was killed by a car trying to bypass a barricade in the northern Asturias region. Unions have paralysed production at state-owned mines in a campaign against cuts.

French cows slaughtered
A French herd was slaughtered after an animal developed mad cow disease – France's 22nd BSE case since 1990.

Ronaldo Player of the Year
Brazilian striker Ronaldo of Inter Milan was named Fifa's World Player of the Year for the second successive year. Compatriot Roberto Carlos of Real Madrid was second and Arsenal's Dutchman Dennis Bergkamp third.

Tennstedt dies
East German conductor Klaus Tennstedt, a famed Mahler interpreter, died in Kiel aged 71. After a western debut with the Boston Symphony Orchestra, he went on to become chief conductor of the London Philharmonic.

BUSINESS NEWS

Sun launches cut-price workstation computers

Sun Microsystems of the US will today launch an attack on the market for computer workstations with new low-priced machines combining workstation and personal computer features. Page 17; Technology, Page 11

Pharmacia & Upjohn, the US-Swedish pharmaceuticals company, is replacing finance director Bob Salisbury, 54, in the latest personnel change since Fred Hassan took over as chief executive in May 1997. Page 18

Lindt & Sprungli, one of Europe's oldest chocolate manufacturers, has become the second biggest producer of high quality chocolate in the US by acquiring San Francisco's Ghirardelli Chocolate Company. Page 20

The rally in European and US bond markets has triggered a big rise in corporate bond issues as treasurers make the most of the cheapest long-term debt in decades. Page 17; Bonds, Page 26

Adidas chairman Robert Louis-Dreyfus pledged that the FFr8bn ($1.3bn) acquisition of Salomon, the French ski and golf company, would lead to no significant job losses. Page 20

Royal Dutch/Shell is to boost the number of women and nationalities in top management as part of a shake-up of its corporate culture. Page 17

Cammell Laird, the UK ship repair and conversion group which floated last July, is poised to sign an agreement to operate the Gibraltar shipyard. Page 24

Komercni Banka, the Czech Republic's biggest bank, said it would make Kč3.5bn ($97.6m) of new provisions in its 1997 accounts but still expected to make a profit. Page 20

Philips, the Dutch electronics group, has finalised the Fl 1.4bn ($683m) sale of its car systems business to Mannesmann of Germany. Page 19

Copper and nickel are the base metals most likely to suffer drops in demand because of the Asian economic crisis with aluminium the least exposed, says one analyst. Commodities, Page 28

EasyJet, the UK low-fares airline, is to submit a bid to acquire Air Holland, the Dutch charter operator, to establish a new hub in Amsterdam. Page 24

Skanska, Sweden's largest construction group, is seeking buyers for its Swedish forest holdings in a sale estimated at SKr1bn ($125m). Page 19

Hagemeyer, the Dutch trading company, expects to show an increase in Asia-Pacific profits for 1997 and 1998 in spite of regional upheavals. Page 20

Deutsche Bank has acquired the business of EL & C Baillieu, one of Australia's oldest corporate finance and stockbroking companies. Page 22

Boeing retained its leadership of the world's aircraft industry last year, beating Airbus Industrie in orders and deliveries. Page 4

Hilton Hotels plans to double the number of its mid-priced Hilton Garden Inn Hotels to 200 by 2000. Page 18

Hang Seng index falls almost 9% as troubled Peregrine files for liquidation

HK bank collapse shakes markets

By our Financial and International staff

Peregrine Investment Holdings, Hong Kong's largest investment bank, filed for liquidation yesterday, plunging the territory's financial markets into turmoil and sparking a further wave of selling in global equities.

In Europe, the FTSE 100 index fell 69.5 to close at 5068.8 and was down 150 points at its lowest. Its fall was halted when the Dow Jones Industrial Average recovered from a 137 point drop. At 1pm New York time, the Dow had edged 36.62 points higher to 7,617.04, having fallen 222 points last Friday.

Peregrine's demise fuelled anxieties about the impact of Asia's financial crisis on Hong Kong, sending the benchmark Hang Seng index down by almost 9 per cent and pushing interest rates sharply higher. The stockmarket has now lost more than half of its value since last August.

Hong Kong's red chips – mainland-controlled companies – fell by more than 20 per cent as investors responded to concerns that China could consider devaluing the Yuan.

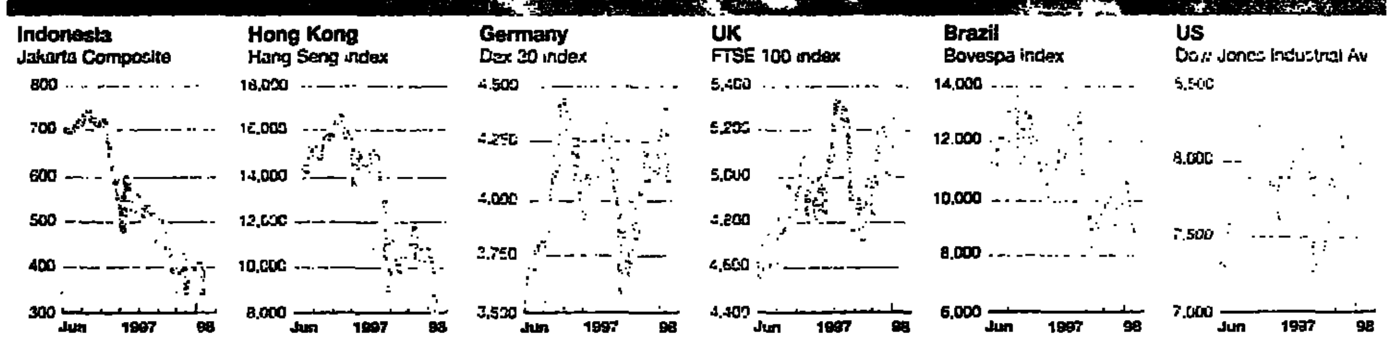
Investment managers said the upheaval in Hong Kong marked a further vicious twist in the regional crisis. "You have a situation now with general panic in the region setting in," said Mark Mobius, head of Templeton's US$14bn emerging markets fund.

Nonetheless, the other recent trouble-spots in the region, Korea and Indonesia, both recovered yesterday, helped by positive comments from IMF officials in Asia. The Korean market bounced by 3.5 per cent, while the Indonesian market closed 2 per cent higher.

The Indonesian market could take further strength from the comments of Indonesian Central Bank Governor Sudradjad Djiwandono yesterday. He said the government would not bail out the country's indebted private sector and would review next year's national budget, which has been heavily criticised by foreign investors.

Contagion spread through Europe, with London particularly badly hit, given its strong links with the Hong Kong market and the weighting of stocks like HSBC Holdings, Standard Chartered and Cable & Wireless.

Investors remain nervous. James Montier, global strategist at NatWest Markets, said: "I am still very cautious about equities on a three- to six- month time horizon. We are about to enter the US earnings reporting season



Source: Datastream/ICV, Reuters

Continued on Page 16
Japan admits scale of bad loans, Page 5; Asia in crisis, Page 8; Asian investment in UK holds up, Page 10; Shelter from the storm, Page 14; Grizzly start to the year, Page 15; Lex, Page 16; Creditors await Peregrine fallout, Page 17; Commodities, Page 28

Morgan Grenfell name to go in revamp

By Clay Harris, Banking Correspondent

Deutsche Bank is planning a shake-up of its global investment banking business which would see London-based Morgan Grenfell lose its name and much of its autonomy.

Under the plans, Germany's largest bank would combine its own corporate banking activities with Deutsche Morgan Grenfell. It hopes to announce the change before reporting its annual results on March 30.

Deutsche Bank also plans to bring its retail and institutional asset management arms under one umbrella. The combined asset management business, responsible for more than DM470bn ($258bn), is likely to be headed by Michael Dobson, who would step down as DMG's chief executive.

Deutsche Bank is the latest European institution to review its investment banking business in the face of fierce competition by US houses and a global merger wave.

Some, like Barclays and National Westminster in the UK, have decided to retrench.

Others, like Dresdner Bank in Germany and ABN Amro and ING Barings in the Netherlands, are planning reorganisations or have already managed to push them through.

Deutsche Bank's plan is among the most radical yet and can be seen as its immediate response to the agreed merger of Swiss Bank Corporation and Union Bank of Switzerland, which enabled the combined Swiss bank to vault Deutsche Bank in size.

It indicates that Deutsche Bank intends to get its own house in order before joining the rush for consolidation.

The plan to create a single "wholesale bank" which does more to exploit client relationships is believed to be based on the model of J.P. Morgan, the US bank. Deutsche Bank feels it has failed to get a sufficient flow of deals from its customer base. It believes this could be remedied by a structure which "put one face to the customer".

The 160-year-old name of Morgan Grenfell would be dropped. Deutsche Bank appears to be aiming to exert more control over DMG, which has expanded aggressively. More than any other bank's activities, DMG's recruitment push is credited with driving up the cost of investment banking staff.

The corporate bank would be based in London, but no longer have a UK-based chief executive in place of Mr Dobson. Two Frankfurt-based executive board members, Ronaldo Schmitz and Carl von Boehm-Bezing, would be responsible for it.

Mr Dobson had just been made chief executive of Morgan Grenfell when Deutsche Bank bought it in 1989. As head of combined asset management, he would remain on the executive board, where he is the only non-German member. He was previously head of asset management at Morgan Grenfell.

Lex, Page 16
Australian acquisition, Page 22

Professors in court appeal against Emu

By Peter Norman in Bonn and Lionel Barber in Brussels

Four German professors lodged an appeal with the nation's constitutional court yesterday against the government's plans to join the single European currency. However, the European Commission privately predicted that their challenge would fail.

Presenting a 352-page complaint, the professors requested an injunction to prevent the single currency from going ahead before the court reached a final decision.

The four asserted that Europe's economic and monetary union would be neither stable nor sustainable. Emu therefore threatened their property rights, as guaranteed by the German constitution.

Moreover, the Bonn government's determination to see the single currency start next January infringed the constitutional duty of the Bundestag, the lower house of parliament, to represent the German people.

In Brussels, a senior Commission official discounted the suggestion that the German constitutional court could block monetary union once EU leaders

Continued on Page 16
Editorial Comment, Page 15
Rome faces challenges, Page 2

New FT record

Sales of the Financial Times jumped 13.9 per cent in the year to December, hitting a record of 342,122 copies a day on average worldwide, according to the Audit Bureau of Circulations. Sales rose in all regions of the world. The six-month average sale for the second half of 1997 was 328,793, 10.8 per cent up on the same period of 1996.

Markets

STOCK MARKET INDICES		
New York lunchtime		
Dow Jones Ind Av	7616.54	(+36.12)
NASDAQ Composite	1506.22	(+2.00)
Europe and Far East		
CAC40	2862.54	(–57.27)
DAX	4067.28	(–149.88)
FTSE 100	5068.8	(–69.5)
Nikkei	14,664.44	(–330.88)
US LUNCHTIME RATES		
Federal Funds	5.5%	
3-mth Treas Bills: Yld	4.975%	
Long Bond	105½	
Yield	5.798%	
OTHER RATES		
UK: 3-mo Interbank	7⅝%	(7.43%)
UK: 10 yr Gilt	109.5900	(109.550)
France: 10 yr OAT	103.2500	(103.270)
Germany: 10 yr Bund	106.9000	(108.920)
Japan: 10 yr JGB	109.7500	(109.780)
NORTH SEA OIL (Argus)		
Brent Dated	$15.015	(15.38)

GOLD		
New York Comex		
(Jan)	$278.3	(278.5)
London:		
	$278.65	(279.55)
EXCHANGE RATES		
Dollar		
New York lunchtime		
£	1.6283	
DM	1.819	
FFr	6.0902	
SFr	1.47645	
Y	132.725	
London:		
£	1.6185	(1.6149)
DM	1.8185	(1.8203)
FFr	6.0880	(6.0929)
SFr	1.4757	(1.4767)
Y	133.075	(131.525)
Tokyo close		Y 132.225
Sterling		
DM	2.9433	(2.9385)

London · Leeds · Paris · Frankfurt · Stockholm · Madrid · New York
Los Angeles · Tokyo · Hong Kong

9 770174 735128 03

Inside

COMMENT & ANALYSIS

- Debt shakes Brazil
Latin American News, Page 5
- Emu's juggling act
European News, Page 2
- Politicians and business
Editorial, Page 15

Solid state traffic lights may develop a market worldwide, Page 11

TECHNOLOGY

- Green signal on traffic lights
Technology, Page 11
- Digital TV stumbles
UK news, Page 9
- Andersen bad blood
International Companies, Page 18

FINANCE

- Should China devalue?
Personal View, Page 14
- Corporate treasurers cash in
Page 17

EMERGING MARKETS

- Investors abandon Singapore
World Stock Markets, Page 38
- Highlights at a glance
Global Equity Markets, Page 37

FT.com: the FT web site provides updated news and an updated archive of back articles at http://www.FT.com

International 4-10 Europe 2,3 Technology 11 Arts 13 Letters 14 Companies 18-24 Bonds 26 Currencies 27 World Equities 32-38

NEWS: EUROPE

Bonn to boost funds for Nazi victims

By Ralph Atkins in Bonn and Andrew Jack in Paris

Germany agreed yesterday to pay an extra DM200m ($110m) compensation to eastern European victims of the Nazi Holocaust not covered by existing schemes.

The deal is expected to pave the way for an estimated 18,000 Jewish victims to receive monthly pensions of about DM250 ($138). It was struck by Friedrich Bohl, minister in the office of Helmut Kohl, the German chancellor, after negotiations with the Jewish Claims Conference, which will handle distribution of the money.

Since the second world war ended, Germany has provided about DM100bn in compensation for Holocaust victims. But until the end of the cold war, survivors living in the former Soviet bloc were unable to make claims.

After German reunification in 1990, the German government extended aid beyond the former Iron Curtain, but it had recently faced complaints that the provisions were inadequate.

The New York-based World Jewish Congress welcomed yesterday's announcement. "As we see it, nearly 10 years after the fall of the Berlin Wall, the cold war has finally come to an end for the east European Holocaust survivors," said Elan Steinberg, executive director of the WJC.

Under yesterday's deal, subject to parliamentary approval, the DM200m would be paid over four years, starting from next year, into a fund established by the Jewish Claims Conference. The method of payment would be arranged by the fund itself. But payments would be subject to recipients being in genuine need and having so far received no compensation.

Mr Bohl said Germany welcomed the initiative taken by the Jewish Claims Conference. Germany was happy to support the latest fund and would continue with its existing compensation schemes across eastern Europe. "In total, the government has spent almost DM1.8bn since 1991 servicing compensation for Nazi victims in eastern Europe," Mr Bohl said.

In Paris, a government-backed commission said yesterday the French museums service should be more active in identifying the number of paintings appropriated from Jews during the war. In a preliminary report, the commission said it was regrettable that the service had identified only in rough figures of about 2,000 the total number of works of art it still holds.

The report's authors also warned French banks to ensure that they carried out research into what had happened to unclaimed deposits after France's liberation, and said they would assess progress in their next report.

New Russian rouble hailed as a success

By John Thornhill in Moscow

Russia's central bank yesterday hailed the redenomination of the rouble as a success which should help put the country firmly on the path to economic growth this year.

But Russia's hopes of a robust turnaround were kept in check as share prices were dragged down by the continuing fall out from Asia's economic woes.

The stock market fell more than 14 per cent as international investors reduced their exposure to emerging markets. Since the start of the year, the RTS index has tumbled 19 per cent, making it more difficult and costly for Russian companies to raise investment capital.

Arnold Voilukov, the bank's first vice-chairman, said the redenomination had passed off "without failures and in an organised manner". But he forecast it would take another three to *four months for the new* redenominated banknotes to flush most of the old ones out of circulation. "We have not set ourselves the task of replacing old money with new money in a single go, in order to spare the population from confusion and frayed nerves," he said.

From the start of 1998, the central bank chopped three zeros off the rouble and began issuing new notes and coins as it withdrew old ones. But old rouble banknotes can be freely used until the end of the year, and can be exchanged thereafter at commercial banks until 2002.

To counter the public's adverse experience of previous currency reforms, the central bank conducted a mass publicity campaign to explain the redenomination. It set up telephone hotlines in every regional branch to answer the public's concerns and conducted a mass advertising campaign to highlight how the it would work.

Mr Voilukov said there had been no signs of panic buying of US dollars as some observers had feared, and he dismissed suggestions that the redenomination had fuelled inflation.

He said the central bank was sticking to its forecast of 1 per cent inflation in January – although there has been much anecdotal evidence suggesting shopkeepers pushed up prices sharply in December. Roland Nash, economist at MFK Renaissance, a Moscow-based investment bank, said the central bank's media campaign appeared to have won people's confidence.

● Russia's top prosecutor pledged yesterday to complete a probe into the so-called "book scandal" *which implicated senior government* officials including the first deputy prime minister, Anatoly Chubais, AP reports from Moscow.

The prosecutor-general, Yuri Skuratov, said the chief figures in the affair had already been questioned, the Interfax news agency reported.

The shady book deal led President Boris Yeltsin to fire three officials close to Mr Chubais last November. He also removed Mr Chubais as finance minister.

The scandal erupted last autumn when it became known that the officials, Mr Chubais included, had accepted advances of $90,000 each for an unfinished book about Russia's privatisation programme.

Vote on bribe case threatens Italy's reforms

James Blitz reports on new problems for the Prodi government

Italy's centre-right opposition, infuriated by allegations of judicial corruption against one of its leading political figures, is threatening to retaliate by sabotaging crucial reforms of Italy's constitution.

The row over the activities of Cesare Previti, a former defence minister, is disturbing the relative calm which has characterised Italian politics since the centre-left government of Romano Prodi almost collapsed three months ago.

Mr Previti is one of the closest acolytes of Silvio Berlusconi, the opposition leader, former prime minister and founder of the conservative Forza Italia political movement.

For the last five months, Mr Previti, an advocate who was defence minister in Mr Berlusconi's short-lived 1994 government, has been the focus of an investigation by Milan magistrates in Italy's biggest case of judicial corruption since the war.

The magistrates accuse Mr Previti, whose knitted brow and Ray-Ban sunglasses are now a regular feature of Italian television news, of bribing a number of judges in Rome between 1986 and 1989 with money put at his disposal by Mr Berlusconi and his former Fininvest business conglomerate.

Mr Previti is also accused of bribing a group of judges three years ago to reach a verdict in favour of the now defunct SIR chemicals firm in a lawsuit against IMI, the Rome-based credit institute.

The allegations are remarkable in themselves, if only for the sums involved. In the SIR lawsuit, for example, Mr Previti is alleged to have paid L67bn ($38m) to a group of judges, who went on to award damages that were roughly ten times that amount. In turn, he is alleged to have received L21bn in a Swiss bank account for his role in the affair.

The political sensitivity of the case is heightened by the proximity of the defendant to Mr Berlusconi, whose own political future has been in doubt for some time. The Milan magistrates recently announced that they would initiate proceedings against Mr Berlusconi on charges that are related to some of those in the Previti case.

Both Mr Previti and Mr Berlusconi have vehemently denied all the allegations against them, saying that they are victims of a political campaign by a clique of aggressive and excessively independent Milanese magistrates.

But the Previti affair has turned into a political issue with broader repercussions, because the former defence minister is still a member of the chamber of deputies and therefore has immunity from prosecution.

In a scene that the Italian press is anticipating as something out of the French revolution, the 630 members of the lower house of parliament will therefore have to vote next week on whether Mr Previti should be arrested.

The outcome of the vote could spell trouble for the Prodi administration. If the chamber votes "yes" to Mr Previti's arrest, Mr Berlusconi and his allies will wreck all further progress in Italy's constitutional reform.

They will argue that the constitutional reform package – the so-called *bicamerale* – can only go ahead if it contains a massive crackdown on Italy's magistrates, something the government parties refuse to accept.

In turn, the disruption of the constitutional process would be a serious blow for Mr Prodi's administration, raising questions about its future after Italy's expected approval in May for membership of the European economic and monetary union.

Indeed, Massimo D'Alema, the leader of the Party of the Democratic Left (PDS) and the driving force behind the constitutional changes, has warned that the wreckage of the *bicamerale* would inevitably have to lead to elections.

What will the deputies do next week? There was one sign yesterday that cooler heads are prevailing when a parliamentary commission agreed that Mr Previti should be kept at liberty.

However, the vote was close (10 to eight with two abstentions) and there is every possibility that the full chamber will reverse the decision next week.

In the end, the verdict will come down to the deputies in the PDS. They will want to save the constitutional reforms that Mr D'Alema has spearheaded and could be tempted to vote against arrest in a secret ballot.

But many PDS deputies will want to take account of the feelings of their supporters in the country. According to an opinion poll published yesterday, some 62 per cent of these grass-roots supporters are firmly in favour of Mr Previti's detention behind bars.

Previti on his way to face a parliamentary committee AP

Swedes seek UK Labour advice

By Tim Burt in Stockholm

Sweden's ruling Social Democratic party is seeking advice from Britain's Labour government on campaign tactics and handling of the media ahead of the Swedish general election next September.

The left-of-centre party, hoping to defend its minority hold on power, recently sent 30 senior officials to London to study how the Labour party secured its comprehensive election victory last May.

The delegation, led by Ingala Thalen, the general secretary, was given advice from Labour on six campaign areas, including fund-raising, recruiting new party members, establishing branch networks and political canvassing.

A Swedish diplomat in London said the effort had followed increased contacts between Swedish ministers and their UK counterparts, culminating in last November's meeting between the two prime ministers, Tony Blair and Göran Persson.

"During the autumn, we had six or seven Swedish cabinet ministers visiting the UK. The main purpose was about how to construct an [election] victory."

The visits followed a drop in the SDP's opinion poll ratings last summer. The party saw its popularity fall from 33.5 per cent in June to 31 per cent in August, while support for the rival Moderate party rose from 32.5 to 35 per cent. Since then, the gap is understood to have narrowed.

SDP officials said more meetings were being planned with Labour and Germany's Social Democratic party, which hopes to oust Helmut Kohl's centre-right coalition next September.

Karl Petter Thorwaldsson, head of information at the SDP, said British Labour officials had studied the Swedish party's last election campaign in 1994, when it defeated the Moderates. "They even copied our campaign slogan – 'Sweden deserves better'," he said.

Sweden's election campaign is expected to be dominated by tax and unemployment. A report commissioned by the Swedish Taxpayers Association showed Swedish income tax levied at rates of up to 68 per cent, against the UK's upper rate of 40 per cent.

Unemployment in Sweden fell from 13.3 to 11.5 per cent in November, against 7.2 per cent in the UK.

Monaco gets Grimaldi bonus

By Andrew Jack in Paris

The gamble by the authorities of Monaco, the principality in southern France best known for its casinos, in investing substantially in celebrating the 700th anniversary of the ruling Grimaldi family has paid off handsomely.

Figures just released by the state show that it more than trebled its money, generating FFr200m-FFr300m ($33m-$50m) in supplementary revenues last year against expenditure on the celebrations of FFr70m.

The statistics were released alongside 1997 economic data for the principality which showed that total turnover rose by 14 per cent to FFr40bn last year, sharply higher than in the surrounding regions of France.

The property, hotel, banking and retailing sectors all reported strong increases in sales, while value added tax receipts rose by nearly 8 per cent to FFr1bn.

After two years of budget deficits designed to finance a number of heavy infrastructure projects, Michel Lévêque, the senior government minister, said in an interview that he expected a net surplus again for 1998.

He stressed that there was no question of breaking with Monaco's longstanding tradition by introducing income taxes, although it was possible that new charges for municipal services – such as household waste collection – could be levied in the future.

Discussions continue between France and Monaco over the formula by which a proportion of VAT levied by France is paid over to the principality, providing the state with its largest single source of revenue. Both sides argue that the current split works in favour of the other.

Talks are more advanced on modifications to the level of reimbursements paid by the French social security system to French workers treated in Monaco's hospitals, which charge relatively high rates.

Separately, there are tensions over French employees working in Monaco, who are subject to very minimal social security contributions in the principality. The French government wants these employees to pay new taxes introduced to pay off the French social security deficit. The case is being examined by the European Union.

ECB must manage the mix

Preparing for Emu

The success or failure of European monetary union will depend to a large extent on how politicians and central bankers manage the so-called "fiscal-monetary mix", a term describing the interaction between fiscal and monetary policy.

The mix, which incorporates the combined policy stance of an economic area and is generally counter-cyclical, is the subject of intense interest among economists and central bankers gearing up for Emu.

It is a complex and speculative area, with an almost endless number of scenarios.

What makes Emu potentially complicated is the degree to which EU-wide fiscal policy remains decentralised. To set an appropriate fiscal-monetary mix, the European Central Bank will have to co-ordinate with 11 member-governments – the likely first-wave participants – and the European Commission, which administers the EU's own budget.

This degree of decentralisation could give rise to a "free-rider" problem. Any single country's unilateral fiscal action would have little impact on the Emu-wide average. As a result, governments – especially in small countries – have an incentive to run the highest permissible budget deficits.

Of course, if everyone acted this way, Emu-wide fiscal policy could err permanently on the side of high deficits, and this could quickly become intolerable. Besides, individual government action is limited by a ceiling set by the stability and growth pact, agreed at the EU summit in Amsterdam last June. The ceiling stands at 3 per cent of gross domestic product.

The ECB might decide to counter excessive fiscal deficits with a relatively tight monetary policy. If it compensated fully, interest rates would be permanently higher than under perfectly symmetric conditions.

The euro, the future single currency, might then rise against other currencies, the terms of trade for the entire Emu area would worsen, and economic growth would settle at sub-optimal levels.

However, for political reasons, the ECB's monetary policy might be able to compensate only partly for fiscal laxity. In that case, inflation would be higher than under a perfectly co-ordinated policy. Either outcome would be seen as economically inefficient, socially undesirable and politically instable.

In its latest discussion paper ("Options for the future exchange rate policy of the EMU", CEPR Occasional Paper No. 17), the London-based Centre for Economic Policy Research notes that the rigid ceiling imposed by the stability and growth pact could perversely end up damaging the ECB's credibility.

It considers a case in which all except one or two Emu countries are in recession. Faced with such a situation, the ECB would run a loose monetary policy. But this stance would be inappropriate in the one or two countries not in recession.

"A better policy would call for a smaller monetary expansion, accompanied by a fiscal stimulus in those countries where the recession is deeper," according to the paper. The 3 per cent deficit ceiling "will put the ECB under pressure to opt for a tight fiscal-easy money policy mix. It will therefore impede rather than assist the ECB. Nor could the ECB argue for a lax application of the stability and growth pact, for fear of losing its own credibility."

This is one of many scenarios under which Emu could face strains. The authors make the point that the pact is not sufficiently flexible. Fiscal policy flexibility would, however, be extremely important in dealing with asymmetric shocks or asynchronous business cycles.

As long as business cycles are convergent and fiscal policy well co-ordinated, monetary policy may face few obstacles. But it is impossible to know whether some sudden crisis may blow up in the future, forcing a change in arrangements.

This is why the current institutional and constitutional framework of Emu may not be carved in stone. The CEPR researchers conclude that the stability and growth pact is untenable in its present inflexible form, and will need to be replaced by more supple rules.

"Such a reform, however, should be accompanied by procedures designed to foster the co-ordination of fiscal policies among national governments, and of monetary and fiscal policies between Ecofin [EU economics and finance ministers] and the ECB."

This would imply what "Emu-minimalists" have been keen to avoid: the overall stance of fiscal policy will not just become a subject of common concern, as is already the case, but subject to common rules. This means an unprecedented degree of economic government.

Wolfgang Münchau

It is impossible to know whether a sudden crisis may blow up, forcing a change in arrangements

FINANCIAL TIMES
Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 60318 Frankfurt am Main, Germany. Telephone ++49 69 156 850, Fax ++49 69 596 4481. Represented in Frankfurt by J. Walter Brand, Wilhelm J. Brüssel, Colin A. Kennard as Geschäftsführer and in London by David C.M. Bell, Chairman, and Alan C. Miller, Deputy Chairman. The shareholder of the Financial Times (Europe) GmbH is Pearson Overseas Holdings Limited, 3 Burlington Gardens, London, W1X 1LE. Shareholder of this company is Pearson plc, registered at the same address.
GERMANY:
Responsible for Advertising content: Colin A. Kennard. Printer: Hürriyet International Verlagsgesellschaft mbH, Admiral-Rosendahl-Strasse 3a, 63263 Neu Isenburg. ISSN 0174 7363. Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
FRANCE:
Publishing Director: P. Maraviglia, 42 Rue La Boétie, 75008 PARIS. Telephone (01) 5376 8254, Fax (01) 5376 8253. Printer: S.A. Nord Eclair, 15/21 Rue de Caire, F-59100 Roubaix Cedex 1. Editor: Richard Lambert. ISSN 1148-2753. Commission Paritaire No 67808D.
SWEDEN:
Responsible Publisher: Hugh Carnegy 468 618 6088. Printer: AB Kvällstidningen Expressen, PO Box 6007, S-550 06, Jönköping.

INTERNATIONAL ECONOMIC INDICATORS: BALANCE OF PAYMENTS

Trade figures are given in billions of European currency units (Ecu). The Ecu exchange rate shows the number of national currency units per Ecu. The nominal effective exchange rate is an index with 1985=100.

	UNITED STATES					JAPAN					GERMANY				
	Exports	Visible trade balance	Current account balance	Ecu exch. rate	Effective exch. rate	Exports	Visible trade balance	Current account balance	Ecu exch. rate	Effective exch. rate	Exports	Visible trade balance	Current account balance	Ecu exch. rate	Effective exch. rate
1986	231.0	−140.6	−155.8	0.9836	81.4	208.9	94.2	87.2	165.11	127.7	248.7	53.5	41.8	2.1279	108.6
1987	220.2	−131.8	−145.6	1.1541	71.9	194.7	83.7	75.5	166.58	138.8	254.4	56.8	40.6	2.0710	114.9
1988	272.5	−100.2	−108.4	1.1833	67.0	218.7	79.8	67.0	151.51	153.7	272.6	61.4	42.4	2.0739	114.1
1989	330.2	−99.3	−94.6	1.1017	70.0	245.5	70.6	53.4	151.87	147.0	310.1	65.1	51.5	2.0881	113.3
1990	309.0	−79.3	−72.1	1.2745	66.7	220.0	50.0	28.5	183.94	132.5	324.6	51.8	38.3	2.0537	118.1
1991	340.5	−53.5	−4.6	1.2391	65.7	249.4	77.7	57.4	166.44	143.7	327.6	11.1	−14.6	2.0480	117.1
1992	345.9	−65.2	−43.5	1.2957	64.4	256.6	96.2	86.7	164.05	150.7	330.9	16.8	−15.0	2.0187	120.6
1993	397.3	−98.7	−77.6	1.1705	66.3	300.3	118.6	112.4	130.31	181.0	325.2	30.6	−12.1	1.9337	125.3
1994	432.3	−127.0	−112.6	1.1857	65.1	325.0	121.7	110.5	120.99	194.9	360.3	37.5	−17.8	1.9188	125.6
1995	452.3	−122.8	−99.9	1.2928	61.2	331.1	101.3	85.3	121.43	204.8	404.4	46.6	−18.3	1.8509	132.1
1996	499.0	−135.9	−118.3	1.2526	64.4	319.8	68.6	52.6	136.24	177.7	416.1	52.1	−10.4	1.8844	128.6
4th qtr.1996	128.6	−34.8	−29.4	1.2557	65.0	80.4	17.0	13.1	141.72	171.2	105.9	14.1	−0.6	1.9217	127.0
1st qtr.1997	140.6	−38.8	−34.1	1.1713	68.3	83.3	14.7	13.1	141.82	164.3	107.8	13.7	−4.8	1.9415	124.8
2nd qtr.1997	152.8	−36.7	−33.2	1.1386	69.2	94.2	24.9	23.2	136.15	168.4	112.2	17.5	2.6	1.9511	123.3
3rd qtr.1997	159.4	−44.1	−38.7	1.0893	70.1	95.4	24.6	22.9	128.47	173.8	117.0	18.3	−1.3	1.9672	120.8
November 1996	42.9	−10.7	n.a.	1.2706	64.4	27.1	6.7	4.7	142.64	171.3	35.4	4.8	0.3	1.9207	127.3
December	43.0	−13.0	n.a.	1.2428	65.5	26.2	4.8	4.1	141.59	170.2	34.7	4.3	0.0	1.9286	126.2
January 1997	43.2	−14.3	n.a.	1.2105	66.7	28.4	5.9	5.6	142.63	166.5	34.9	2.5	−5.5	1.9414	125.3
February	46.9	−13.5	n.a.	1.1587	68.9	27.6	4.1	4.0	142.52	162.3	36.0	5.0	−0.8	1.9412	124.5
March	50.8	−10.9	n.a.	1.1447	69.5	27.3	4.7	3.5	140.32	163.7	36.9	6.2	1.5	1.9418	124.5
April	50.7	−12.1	n.a.	1.1401	70.4	33.6	7.1	7.1	143.23	160.2	35.7	5.6	1.6	1.9509	123.9
May	50.6	−12.6	n.a.	1.1444	68.9	33.0	10.2	9.4	135.92	169.0	37.9	5.4	−1.4	1.9491	123.5
June	51.5	−11.9	n.a.	1.1312	68.4	31.2	7.8	7.5	129.31	176.5	38.6	6.5	2.4	1.9534	122.4
July	52.5	−14.2	n.a.	1.1011	69.2	32.4	7.7	7.3	126.84	177.0	38.8	6.3	−0.5	1.9722	120.6
August	54.6	−14.3	n.a.	1.0695	70.7	32.8	10.0	9.6	125.99	175.3	38.2	4.8	−2.6	1.9675	120.4
September	52.4	−15.6	n.a.	1.0974	70.5	30.2	7.0	6.0	132.58	169.2	40.0	7.1	1.8	1.9618	121.5
October	52.7	−14.1	n.a.	1.1191	70.0	33.0	10.4	10.0	135.36	167.8	38.6	4.7	−2.5	1.9655	122.0

	FRANCE					ITALY					UNITED KINGDOM				
	Exports	Visible trade balance	Current account balance	Ecu exch. rate	Effective exch. rate	Exports	Visible trade balance	Current account balance	Ecu exch. rate	Effective exch. rate	Exports	Visible trade balance	Current account balance	Ecu exch. rate	Effective exch. rate
1986	127.1	0.0	3.0	6.7946	102.7	99.4	−2.5	2.1	1461.6	101.4	108.3	−14.2	−1.3	0.6708	91.1
1987	128.3	−4.6	−3.7	6.9265	102.7	101.0	−7.7	−1.9	1494.3	101.1	112.3	−16.4	−6.8	0.7047	89.3
1988	141.9	−4.7	−3.4	7.0354	100.6	108.3	−8.9	−5.4	1538.8	97.7	120.9	−32.3	−24.8	0.6643	94.7
1989	162.9	−6.3	−3.6	7.0169	99.6	127.8	−11.3	−10.7	1509.2	98.6	137.0	−36.7	−33.3	0.6728	91.9
1990	170.1	−7.2	−7.2	6.9202	103.8	133.6	−9.3	−12.9	1523.2	100.1	142.3	−26.3	−26.2	0.7150	89.8
1991	175.4	−4.2	−4.8	6.9643	102.1	137.0	−10.5	−19.2	1531.3	98.7	147.7	−14.7	−11.4	0.7002	90.5
1992	182.5	4.5	2.9	6.8420	105.4	137.9	−6.0	−22.6	1591.5	95.6	145.9	−17.8	−13.8	0.7359	87.1
1993	179.6	13.3	8.0	6.6281	109.1	144.9	18.1	8.7	1836.7	80.5	166.0	−17.3	−13.2	0.7780	79.9
1994	198.9	12.6	5.4	6.5659	110.1	161.4	18.8	12.0	1908.6	77.0	174.1	−14.4	−2.1	0.7736	80.1
1995	219.7	10.4	8.4	6.4480	113.4	181.0	21.6	20.7	2106.4	69.4	186.9	−14.1	−4.5	0.8190	78.2
1996	230.2	13.8	16.4	6.4068	113.3	198.5	35.3	32.7	1932.1	75.8	208.0	−15.8	−2.3	0.8026	77.5
4th qtr.1996	58.5	3.9	4.8	6.4976	112.5	52.3	9.4	7.5	1911.2	77.6	54.9	−3.4	0.4	0.7670	82.1
1st qtr.1997	59.4	4.6	7.1	6.5517	110.9	47.0	5.1	7.5	1917.8	77.0	58.6	−3.5	2.3	0.7186	87.0
2nd qtr.1997	62.8	7.5	10.3	6.5788	109.8	54.0	6.8	6.2	1924.6	76.3	61.3	−4.3	2.0	0.6960	89.5
3rd qtr.1997	66.1	7.6	7.8	6.6261	108.2	52.5	8.8	8.1	1918.8	76.1	64.4	−3.8	0.7	0.6705	92.1
November 1996	18.7	0.9	1.0	6.5001	112.6	17.1	3.0	3.0	1922.6	77.2	18.2	−1.3	n.a.	0.7642	82.6
December	19.9	1.2	1.5	6.5156	111.9	17.2	2.2	1.2	1899.5	78.1	18.7	−1.2	n.a.	0.7465	84.4
January 1997	19.3	1.6	3.2	6.5512	111.2	14.3	0.9	3.7	1896.7	78.2	19.7	−0.9	n.a.	0.7298	86.2
February	20.0	1.6	2.9	6.5539	110.6	16.0	2.0	2.0	1918.8	76.8	19.8	−1.3	n.a.	0.7132	87.5
March	20.1	1.4	1.0	6.5502	110.7	16.9	2.2	1.8	1937.9	75.9	19.2	−1.2	n.a.	0.7127	87.5
April	20.9	2.3	3.5	6.5715	110.3	17.8	2.1	2.1	1931.6	76.3	20.7	−1.5	n.a.	0.6997	89.4
May	20.8	2.5	3.7	6.5725	110.0	18.1	2.5	2.1	1925.6	76.3	20.1	−1.2	n.a.	0.7006	89.0
June	21.0	2.8	3.1	6.5823	109.1	18.1	2.1	2.0	1916.7	76.4	20.5	−1.6	n.a.	0.6878	90.2
July	22.1	3.2	3.7	6.6534	107.8	21.5	5.6	7.8	1920.1	76.1	22.4	−1.1	n.a.	0.6592	93.6
August	21.6	1.6	1.4	6.6309	107.8	12.8	2.6	1.8	1921.9	75.7	21.4	−0.9	n.a.	0.6670	92.1
September	22.4	2.9	2.6	6.5940	108.9	18.2	0.5	−1.5	1914.5	76.4	20.7	−1.8	n.a.	0.6952	90.2
October	22.5	2.8		6.5939	109.5				1925.4	76.3	20.9	−2.0	n.a.	0.6953	90.8

Due to the introduction of the Single Market, EC countries are currently changing to a new system of compiling trade statistics. All trade figures are seasonally adjusted, except for the Italian series and the German current account. Imports can be derived by subtracting the visible trade balance from exports. Export and import data are calculated on the FOB (free on board) basis, except for German and Italian imports which use the CIF method (including carriage, insurance and freight charges). German data up to and including June 1990, shown in italics, refer to the former West Germany. The nominal effective exchange rates are period averages of Bank of England trade-weighted indices. Data supplied by Datastream and WEFA from national government and central bank sources.

NEWS DIGEST

Yeltsin holds 1st meeting of 1998

Boris Yeltsin, Russia's president, will today hold his first official meeting of 1998 when he hosts Boris Nemtsov, first deputy prime minister, at his holiday retreat in the Valdai region.

The Kremlin has promised to release television footage of the event to reassure the public about the state of Mr Yeltsin's health. Mr Yeltsin, 66, who caught a viral infection in December, has not been seen in public this year – apart from two brief and heavily edited television addresses.

The presidential press service has said Mr Yeltsin is pursuing an "active regime" on his two-week holiday, working on documents and talking to foreign leaders and government ministers by telephone. But Russians have grown suspicious about official pronouncements concerning their leaders' health.

Mr Yeltsin is due to return to the Kremlin on January 19. He has summoned all the government's top officials to a meeting on February 26 to account for their performance and is likely to unveil a package of new measures in his state of the nation address towards the end of the month. *John Thornhill, Moscow*

■ AUSTRIAN POLITICS

Haider threatens to quit

Jörg Haider (left), leader of Austria's far-right Freedom party, has threatened to step down at a party congress later this year unless his supporters pull their socks up. "I will remain in charge after the next congress only if I see a return of enthusiasm at the heart of the party," he told party militants in Graz on Sunday. Mr Haider, 47, has taken his party from under 5 per cent support to almost 30 per cent over the last decade. He is now eyeing the Austrian chancellorship in legislative elections scheduled for 1999.

But he said he needed help. "The party has a long way to go, and I cannot allow the horse to start limping at the *first sign of an uphill slope," he said.*

Mr Haider lambasted the lack of support for a petition opposing the introduction of the European Union's single currency in 1999. About 250,000 people signed, but this was much less than he had hoped for. "I regret the lack of enthusiasm shown in recent months," he said. "I am not tired, I am just disappointed. Help me overcome this disappointment." *AFP, Vienna*

■ CZECH ELECTIONS

Poll set for June 19

The caretaker Czech government of Josef Tosovsky bowed to pressure from the main political parties yesterday and announced it planned to hold early elections on June 19.

Several figures in the technocrat-led administration had pushed for elections in November or even later, but a meeting of party leaders at the weekend agreed that polls should be held in the first half of the year.

On Sunday Milos Zeman, the leader of the biggest opposition party, the Social Democrats, said all the main parties apart from the small Civic Democratic Alliance were in favour of elections by June.

The Czech constitution does not provide an easy mechanism for early elections, and the government said they would have to submit a law with a vote of confidence attached on Thursday, which parliament would have to ignore for 90 days. The constitution would then allow parliament to be dissolved on April 20 and elections to be held 60 days after that. *Robert Anderson, Prague*

■ GERMAN BROADCASTING

Brussels to extend probe

The European Commission is expected to extend its investigation into a proposed German digital pay-TV venture between the broadcasting groups Kirch and Bertelsmann and Deutsche Telekom.

The Commission has opted for a four-month extension of the probe, as it still has reservations about the implications of the proposed venture on competition in the German market.

The Commission was supposed to take its decision on Thursday, but it may delay a formal announcement until next week after a request by the German authorities to have the case referred back to the Berlin cartel office – Germany's competition authority. This request is almost certain to be turned down.

The Commission's decision is the latest setback for the venture. Last month Brussels ordered Kirch and Bertelsmann to stop joint marketing of their existing respective pay-TV networks and the decoder boxes needed for the unscrambling of digitally transmitted signals, on the grounds this constituted a breach of EU competition law. *Frederick Stüdemann, Berlin, and Emma Tucker, Brussels*

■ TELECOMS REGULATION

Decision on charges deferred

German customers who switch to a new telephone company this month, if not beyond, will avoid charges imposed by Deutsche Telekom to cover the cost of changing, in accordance with a ruling by regulators yesterday.

A meeting in Bonn between Deutsche Telekom and its new competitors put off until January 31 a decision on what new charges the former monopoly supplier can impose. Klaus-Dieter Scheurle, head of the new regulatory authority, said retroactive charges would not be possible.

The meeting followed a row over plans by Deutsche Telekom to impose a DM95 ($52) "pre-selection" charge for customers contracting to use another carrier, and a DM53 charge for those wanting to take their existing telephone number to a new supplier.

Mr Scheurle hoped an agreement could be struck which avoided any charge being imposed on customers wishing to switch. Deutsche Telekom had said it wanted to share the cost of switching with the new companies, rather than impose costs on customers. *Ralph Atkins, Bonn*

■ FRENCH PRICES

1997 inflation at 40-year low

French prices rose by 1.1 per cent in 1997, the lowest annual increase in more than 40 years. The result was achieved thanks partly to the energy and public services sectors, where prices were lower in December than a year ago, and to manufactured products, where they were virtually stable.

On the other hand, price rises were steepest for food, particularly fresh products, which cost 4.6 per cent more than 12 months earlier. In December alone, prices were stable. The finance and economy ministry described the figures – published yesterday by Insee, the national statistics agency – as "remarkable", partly because they coincided with a vigorous acceleration in economic activity in France.

"These data establish the basis for non-inflationary growth for 1998," it said.

See Lex, Page 16 *David Owen, Paris*

Germany to subsidise chip industry

By Peter Norman in Bonn

The German federal government and the eastern German state of Saxony yesterday committed up to DM370m ($203m) of public funds to supporting the development of a "next generation" chip industry based on 300mm wafer technology.

Federal subsidies of up to DM187m and investment support of DM120m from Saxony will help finance a joint DM1.5bn venture of Siemens, the German electrical group, and Motorola, the US electronics company.

It will research and develop 300mm wafer manufacturing technology and the building of a pilot plant at Siemens' existing chip plant in Dresden.

Up to DM63m of federal subsidies will be paid to Wacker Siltronic, a German company, to develop production of 300mm silicon sheets at a DM1.6bn plant in Burghausen in Bavaria.

Jürgen Rüttgers, Germany's science and technology minister, hailed the partnership as evidence of a comeback for Germany as a site for industrial investment. He said the so-called "300-plus" project would create the foundations of a "chip factory of the future" and that Dresden, the Saxon capital, would increase its share of European semiconductor production to 10 per cent by 2001 from about 4 per cent.

Heinrich von Pierer, chief executive of Siemens, explained the project centred on new technology for manufacturing chips that could cut production costs by up to 30 per cent compared with existing 200mm wafer technology. Motorola and Siemens expect to be producing chips with 300mm wafers by the end of this year in the project's development stage, and to achieve volume production with the new technology by 2000.

Mr von Pierer said the Dresden investment would create 450 jobs.

According to Mr Rüttgers, the project could ultimately secure and create 13,000 highly qualified jobs in Germany, of which 8,000 would be permanent.

However, Mr von Pierer also warned the semiconductor business was going through difficult times. Although Siemens expected its semiconductor sales to increase to DM10bn-DM12bn by the end of this century from DM6bn last year, it faced a difficult year because of falling prices.

Poland prepares for telecoms breakthrough

A little-known company is set to compete with the state-owned operator due for flotation

Poland's Telekomunikacja Polska (TP), the state-owned telecoms operator due to be partly privatised this year, may face strong competition later this year thanks to an ambitious if little-known rival called Tel-Energo.

The company is one of several local and mobile telephone operators which are preparing to loosen TP's grip on Poland's lucrative inter-city voice traffic.

These developments threaten to lower the value of TP, which is put at between $10bn and $15bn. They also raise the prospect that TP will lobby the government for extended protection from private sector competition, in order to secure the best possible price when it is floated on the Warsaw bourse in the autumn.

So far, TP has used its statutory monopoly on long-range domestic and international connections to fight off competition from private operators with licences to run local networks. These include Netia, a joint venture between Telia of Sweden and a local partner backed by mainly Israeli investors.

TP has been able to charge less for local calls and subsidise this traffic with higher charges for long-range connections. This option has been closed to private sector companies forced to use TP's inter-city links and unable to price their services higher than TP's.

As a result, they have marked time with their investments as they have waited for TP's monopoly on inter-city domestic links to end at the start of next year. TP will then be left with an exclusive right to foreign connections until 2003. The key to breaking TP's inter-city monopoly lies with Tel-Energo, a small telecommunications company set up by Poland's state-owned power distributors and PSE, which runs the national power grid.

> Tel-Energo is one of several operators which are preparing to loosen TP's grip on Poland's inter-city voice traffic

Polish state railways and GSM mobile telephone operators are also planning national networks, but Tel-Energo is way ahead of the field. The company is completing a $110m nationwide fibre-optic communications network which has been run along the existing power distribution system.

Thanks to this the network will be ready to match TP's long-range facilities later this year, a few months before TP loses its statutory monopoly. Tel-Energo will then be able to serve both local operators, such as Netia, and Poland's two independent GSM networks, which are bound by law to use TP's costly and at times unreliable long-range links.

PSE and Tel-Energo are also shareholders in Polkomtel, one of Poland's two GSM operators, potentially giving it the edge over the rival Polska Telefonia Cyfrowa (PTC).

However, Tel-Energo's chief executive, Zdzislaw Nowak, says his company will not discriminate against anyone when offering long-range services.

Meanwhile Pawel Kuraszkiewicz, a member of PSE's management and head of Tel-Energo's supervisory board, is excited about the prospects for the power sector's telecommunications arm.

He thinks it could soon be controlling a quarter of the country's telecommunications market, now worth around $10bn a year. The company will also provide cable-TV programme links and already carries electronic mail for corporate customers.

The flow of revenue will help finance the modernisation of the power sector and put Tel-Energo, which reported 36m zlotys ($10m) worth of sales last year, on track for a stock exchange flotation in the not too distant future.

Working in alliance with KGHM, Poland's giant listed copper-producer, Tel-Energo recently won licences to install and operate local networks in three western provinces, including Wroclaw, as well as Elblag on the Baltic coast.

Christopher Bobinski

Miner killed during Spanish strike

By David White in Madrid

Tension rose in a Spanish coal dispute yesterday after a miner was knocked down and killed by a car trying to bypass a barricade on a highway in the northern Asturias region.

Unions, which have already paralysed production at state-owned mines in a campaign to stop the European Commission from imposing further cuts, suspended protest actions but called out the rest of the coal industry for a one-day strike today.

The strike at the state-owned Hunosa and Figaredo mining companies has been extended at least until tomorrow, when a fresh round of talks is scheduled with management. Today will be the 10th strike day in a movement which, combined with holidays, has halted activity at the mines since before Christmas.

One large private-sector mine near Gijón had already joined the movement in sympathy last Friday. Josep Piqué, industry minister, called for calm after yesterday morning's fatal incident and emphasised that negotiations should continue.

Unions want the government to stand by a settlement on the future of the state-owned mines that was agreed last May. This foresaw a reduction in jobs at the two companies from about 10,000 to 7,000 in 2001, with an early retirement programme offset by more than 1,000 new hirings.

This plan was pegged to a reduction in output from 2.5m tonnes to 2.1m. But the Commission wants output brought down to 1.5m tonnes, calling the new hirings into question.

Roads and railways have been cut off by protesters amid clashes with police in Asturias, where unions are considering calling a general strike. The conflict risks becoming a focus of discontent against the centre-right government's privatisation of industries such as steel and shipbuilding.

● The government obtained some consolation on the labour front with figures showing a reduction of 140,000 in registered unemployment last year. The national employment office said the number of registered job-seekers fell by 18,000 in December to 2.08m, or 12.82 per cent, compared with 12.94 per cent the previous month. It was the lowest December rate since 1980.

The registered figures continue to show a discrepancy with Spain's quarterly employment survey showing a jobless rate of 20.5 per cent. However, they demonstrate a sharp rise in the number of Spaniards being engaged on a permanent basis since last year.

US envoy warns defeated Milosevic ally

By Guy Dinmore in Podgorica

The chief US envoy to the Balkans intervened yesterday to defuse a crisis in the Yugoslav republic of Montenegro, where a demonstration by supporters of the outgoing president raised fears that central authorities in Belgrade would declare a state of emergency.

The US envoy, Robert Gelbard, said he had warned Momir Bulatovic, the president who was defeated in elections last October, of Washington's "strongest possible opposition" to any attempt to block the transfer of power.

Mr Bulatovic, a key ally of Slobadan Milosovic, the Yugoslav president, is due to hand over his office on Thursday to Milo Djukanovic, their reformist rival, who has challenged Serbia's domination of Montenegro, its tiny sister republic.

Mr Bulatovic has denied reports in the Yugoslav media that he intends to stir up violence in the streets to create a pretext for a state of emergency that would prolong his term.

A pro-Bulatovic rally outside Montenegro's parliament building drew about 10,000 people, fewer than organisers had hoped for. Banners denounced "US interference" but the mood was generally peaceful.

Mr Gelbard said Mr Bulatovic had told him he accepted Mr Djukanovic's narrow election victory, but speakers at the rally repeatedly accused him of fraud and demanded new parliamentary and presidential polls. They said protests would continue.

Present at the demonstration was the federal Yugoslav defence minister, Pavle Bulatovic, who belongs to the same clan as the Montenegrin president.

A state of emergency would have to be enforced by the Yugoslav army, as Mr Djukanovic controls most of the republic's security forces. Diplomats said the demoralised and poorly funded federal army was unwilling to get involved.

Police were out in force in Podgorica with water cannon ready in side-streets. As night fell, several thousand people, many of them Serbs and former communists, were outside parliament.

Western governments have thrown their support behind Mr Djukanovic, an ex-communist who became prime minister in 1991 at the age of 29.

He has attacked Mr Milosovic for isolating what is left of Yugoslavia and blocking economic reforms, knowing that Montenegro's ambitious plans for privatisation and foreign investment will be obstructed by continuing US sanctions on Belgrade.

NEWS: WORLD TRADE

Boeing retains industry leadership

By Michael Skapinker, Aerospace Correspondent

Boeing of the US last year retained its leadership of the world's aircraft industry, beating Airbus Industrie, its European rival, in orders taken and deliveries made.

But Boeing's 1997 figures, announced yesterday, revealed a strong showing by Airbus. The European consortium's performance came despite Boeing's acquisition last year of McDonnell Douglas of the US, previously the world's third largest civil aircraft manufacturer.

Based on Boeing's figures, Airbus won 41.5 per cent of civil aircraft orders last year by value, after taking account of airline cancellations. This compared with 58.4 per cent won by Boeing. Boeing has traditionally held more than 60 per cent of the civil aircraft market, compared with a third won by Airbus.

Ron Woodard, president of Boeing's commercial aircraft division, said: "Industry leadership is something we do not take for granted. We are working very hard to listen to our customers so that we can develop and deliver quality, cost-effective products."

Boeing said it had taken 568 gross orders last year, valued at $42.8bn. The gross order figure does not take account of airline cancellations or conversions to different models. Airbus won 460 gross orders, with a value of $29.6bn. Boeing's total was boosted by 17 orders won by McDonnell Douglas.

Boeing said it also defeated Airbus in net orders, which takes into account cancellations. Boeing won net orders for 502 aircraft last year, with a value of $39.1bn. This compared with 438 net orders won by Airbus, with a value of $27.8bn. Boeing said it traditionally used the value of net orders when calculating its worldwide market share.

Boeing's orders last year were lower than the 712 that it won in 1996. They were also slightly fewer than the 593 orders it won in 1988 – the height of the last civil aircraft upturn.

Boeing's biggest sale last year was to Delta Air Lines, which ordered 106 aircraft, with a value of $6.7bn. Other large sales last year included a $3bn order from China for 50 aircraft and a 61-aircraft order from the Los Angeles-based International Lease Finance Corporation.

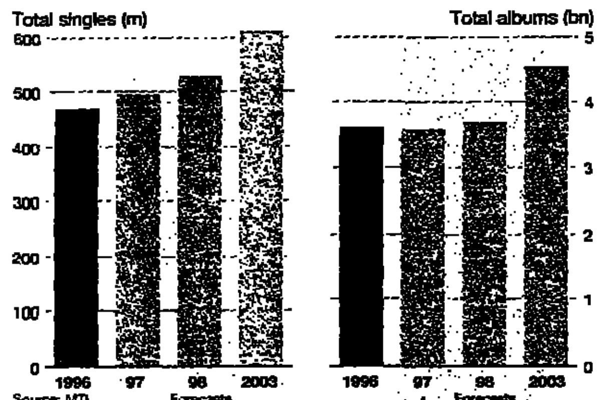
Boeing said it delivered 375 aircraft to airlines last year, compared with 182 delivered by Airbus. Boeing's delivery rate was sharply higher than the 220 aircraft it delivered in 1996. The increase strained Boeing's production system. A shortage of components and difficulties in Boeing's factories led to a 20-day shut-down in production of the company's 747 aircraft.

Boeing said it delivered a total of 68,561 aircraft seats to customers last year, compared with 28,900 by Airbus.

Music sales start to slow

By Alice Rawsthorn

Stuck in a groove



Puff Daddy: rap star helped to push up BMG's sales

The global music industry is entering a period of slower growth over the next five years, reflecting the maturity of the North American and western European markets and economic turmoil in Asia.

After a decade in which the music market doubled in value, retail sales of albums and singles will show real growth of 26 per cent by rising from $40.2bn last year to $50.7bn in 2003, according to a new study compiled by Market Tracking International for MBI World Report, the trade magazine.

Sales will continue to show robust growth in developing markets, notably eastern Europe and Latin America. However, the increases from these regions are unlikely to counter the sluggishness of larger, more mature markets such as the US, Germany, France and Japan.

The projected rise in music sales will be considerably higher than other areas of consumer products yet the slowdown could pose problems for the multinational entertainment groups which dominate the music market.

MBI claims that the balance of power in the industry has changed. It estimates that PolyGram of the Netherlands is still the world's biggest record company with a 17 per cent market share. Buoyed by the success of Celine Dion and Oasis, Japan's Sony moved ahead of Warner Music to take second place with 15.7 per cent in 1996.

Warner, part of Time Warner, the US entertainment group, fell to third place with 14.5 per cent. Best-selling artists such as Puff Daddy and Toni Braxton propelled BMG, part of Bertelsmann, the German media company, into fourth position with 14 per cent. This put BMG ahead of the UK's EMI Group, which slipped into fifth place with 11.2 per cent.

Similarly, the regional balance of power is expected to change over the next five years, with Asia leapfrogging ahead of Europe and North America to become the largest source of album sales by volume.

Music sales in several Asian countries, including Japan, Hong Kong, Singapore and Taiwan, will decline over the next two years, according to MBI. The Japanese market will remain sluggish, with album sales mustering negligible growth from 270m in 1997 to 278m in 2003. However, other Asian markets, notably India and China, are expected to rally with total regional sales rising from 833.8m last year to 1.22bn in 2003.

Over the same period, European album sales should rise by 16 per cent from 1.04bn to 1.21bn. Most of this increase will come from Eastern Europe, particularly from Russia and Poland. Growth in western European should be slower, and retail sales could be affected by discounting, as superstores expand at the expense of traditional specialist retailers.

Discounting will continue to be a problem in North America, which is historically the world's largest music market, but is expected to fall into third place behind Asia and Europe. MBI anticipates a 9.7 per cent increase in North American album sales from 1.03bn in 1997 to 1.13bn in 2003.

The prospects for the Latin American music market are considerably brighter. Album sales across the region are forecast to rise by 68 per cent from last year's total of 252.9m to 423.6m in 2003.

Sales in Argentina are expected to rise from $363m to $450m over the same period, and in Mexico from $476m to $867m. Many smaller markets, including Peru and Uruguay, are set to double in value.

The MBI World Report, £525, published by MBI, 8 Montague Close, London SE1 9UR. Tel: 0171 579 4010.

Brussels weighs Ecu530m aid for bananas

By Daniel Dombey in Brussels

The European Commission is considering proposals that would award Ecu530m ($578m) in transitional aid over 10 years to banana producers in Africa, the Caribbean and the Pacific.

The aid proposals are part of a package to reform the European Union's regime for importing bananas. The Commission is set to decide on the package tomorrow.

The Commission is also looking at proposals to abolish licences to import bananas at preferential tariffs.

The moves follow last year's ruling by the World Trade Organisation that the EU's current system broke international trade rules.

But the total aid package, which would be shared between 12 countries, could be less than the cross-subsidies that African, Caribbean, and Pacific countries currently receive. This is because of the trade in licences to import the bananas at the preferential rate.

The EU has an annual quota of 2.2m tonnes of bananas imported at preferential rates. The quotas for African, Caribbean and Pacific importers account for 30 per cent of this total. Based on the current price structure, the countries in the region indirectly receive about Ecu80m in cross-subsidies a year, through the sale of quota-allocations.

Under the current system, established in 1993, there are import quotas of 857,000 tonnes for countries in Africa, the Caribbean and the Pacific. These currently enjoy a zero import tariff, and their importers often sell excess licences to importers of bananas from Latin American countries.

While the Commission is confident it can maintain current trading patterns and meet WTO rules, the system of licences would be ended under the proposals it is considering, and the current cross-subsidies would be removed. This is the reason for the transitional aid.

The Commission argues that its proposed reforms would withstand scrutiny by World Trade Organisation lawyers and should help the development of poorer countries' banana cultivation. But the US and the Latin American countries which took the system to WTO adjudication are likely to push for more thorough reform. Big importers in Germany are also certain to be critical.

NEWS DIGEST

EU delays maize decision

The European Union has postponed a decision on whether to overrule two member states which last year imposed bans on the import and production of genetically modified maize.

A regulatory committee made up of experts from EU countries agreed to delay until March a ruling on Austria and Luxembourg's ban on the maize. This follows a previous delay at a November meeting of the committee although, in September, the European Commission made proposals which would have required the countries to lift the ban.

In December 1996, the EU authorised use of a genetically modified maize produced by the Novartis group, but Austria and Luxembourg both banned the maize on the basis of a more general EU directive. Switzerland and France have approved the use and cultivation of the product. *Daniel Dombey, Brussels*

■ VIETNAMESE POWER PROJECT

Oxbow optimistic over deal

Oxbow Power Services, the US electricity generator, yesterday said it was optimistic that it would have concluded all necessary agreements, by the end of March, to proceed with plans for a $350m privately financed Vietnamese power project. The coal-fired power station in the northern province of Quang Ninh has been delayed by failure to reach agreements on coal costs and electricity prices.

Financial arrangements for the Quang Ninh project and a proposed $500m private sector power project at Phu My in the south of the country are regarded as important test cases of how far Vietnamese authorities are prepared to go to encourage much needed private sector investment in electricity generation.

The government last year awarded the first private concession to Wartsila, a Scandinavian-owned engineering group, for a $120m power station in Baria Vung Tau province, south-east of Ho Chi Minh City. Oxbow would seek funding once it had achieved all the necessary permissions from the regulatory authorities. Some 70 per cent of the cost is expected to be financed by debt. *Andrew Taylor, Construction Correspondent*

■ ANTI-DUMPING DUTIES

Chile fights US over salmon

The Chilean government is fighting back against anti-dumping duties on its salmon exports to the US with a high-profile campaign. Bob Dole, former senator and 1996 presidential candidate, has attacked moves by eight US producers to get dumping duties imposed on fresh Chilean salmon. Mr Dole welcomed the decision by the US Commerce Department last week which found no grounds for dumping claims against three of five Chilean fresh Atlantic salmon producers. However, he expressed concern that the ruling will impose tariffs on salmon produced by other companies.

The list of companies and groups siding with Chile includes the National Restaurant Association, American Airlines, United Airlines and other air cargo carriers. The groups said the imposition of tariffs on more than 50 per cent of salmon imports placed at risk more than 19,500 jobs in the US. *Nancy Dunne, Washington*

NEWS: INTERNATIONAL

Blast sparks more Algeria slaughter

By Roula Khalaf in London

An armed gang killed more than 100 people on Sunday night in a village near Algiers, as diplomats tried to find ways to enlist international help to end the six-year conflict.

A bomb blast in a café in Sidi Hamed, a village 20 miles south of the capital, started off another night of slaughter in which dozens of civilians were killed.

Since the start of the holy Moslem month of Ramadan two weeks ago, more than 1,000 civilians have been killed in massacres, according to local newspapers.

Security forces yesterday confirmed the latest killings, and cited a death toll of 103 and 70 wounded – the highest ever officially recognised for a massacre. Other sources in Algiers said the death toll may have been much higher.

Security forces said more people would have died without their intervention and the resistance of self-defence militias, who were armed by the government.

The latest massacre happened as Algiers was waiting for two envoys, one from the Arab League, the other from Canada. International concern over the wave of massacres has forced western and Arab governments to initiate diplomatic action. The European Union is also preparing to send a delegation to Algiers, to report back before the EU foreign ministers' meeting on January 26.

The Algerian government, which says Islamist extremists are responsible for the massacres, is opposed to foreign intervention in the conflict.

It told the EU the mission was welcome as long as it aimed to discuss co-operation against terrorism. Western governments are treading carefully and couching their diplomatic initiatives in terms of an attempt to increase their understanding of the conflict, extend help to the victims, and initiate a long-term dialogue with the authorities on ways that Europe could help bring an end to the killings.

The Arab League has emphasised that it was sending an envoy to Algiers to express its solidarity with the people and the government.

A Canadian official said yesterday his government's envoy would put ideas to the Algerian authorities, including encouraging them to submit to greater transparency in reporting the conflict.

Algiers has kept a tight lid on security information, adding confusion to a little understood conflict. Human rights organisations have raised concerns that Islamists may not be the only ones responsible for the killings – allegations denied by the government.

> Security forces confirmed the killings, citing 103 dead and 70 wounded

However, none of the diplomatic missions is seeking to act as commissions of inquiry into the massacres, as urged by human rights organisations. The government rejects calls for such investigations, saying they put in doubt the identity of the killers.

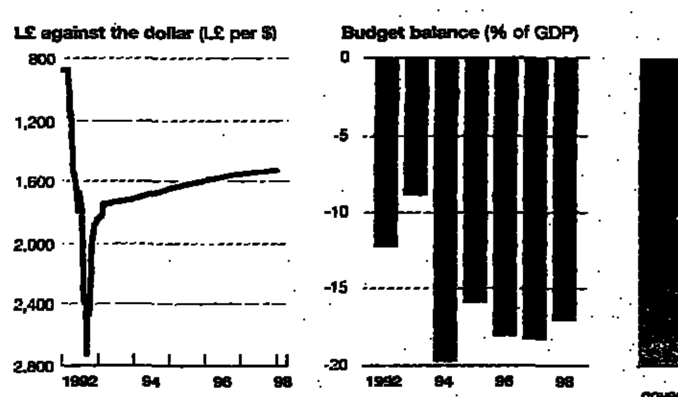
Abdelkader Hachani, a senior leader of the Islamic Salvation Front (Fis), the party stripped of an electoral victory in 1992, urged western governments to persuade Algiers to speak to the banned party.

Mr Hachani proposed that western countries work towards a conference of national reconciliation among Algerians, to be followed by a commission of inquiry into the killings.

Lebanese pound makes most of borrowed time

Stability hinges on moves to stem rising budget deficit and debt

Lebanon: confidence restored . . . for now



Riad Salame, governor of the Bank of Lebanon

Riad Salame, Lebanon's central bank governor, is feeling confident. After averting a currency crisis at the end of last year, he received a new year's gift from the Saudi government in the form of a $600m, three-year, low-interest deposit.

The deposit strengthened the country's foreign exchange reserves and stopped the sell-off of Lebanese pounds over the past several months by both foreign and local investors.

"The Saudi deposit is a sign of confidence in the government and in the central bank," says Mr Salame.

While currency crises have been sweeping Asian markets, many in Lebanon have been surprised at the stability of the Lebanese pound, often described as shaky and on its way to collapse.

Before the Saudi deposit was made, Lebanon's net reserves dropped from $4.2bn last April to $2.5bn.

Bankers and economists in Beirut say the deposit has only bought Mr Salame time and the pound's stability will hinge on the government's ability to contain a rising budget deficit and internal debt that is 90 per cent of gross domestic product.

Yesterday Beirut bankers said the currency market was in a "wait and see" attitude, with the dollar not in demand but not on offer either.

Rafiq Hariri, the billionaire businessman who is Lebanon's prime minister, boosted confidence in the pound when he took over in 1992 and staked his reputation on its stability.

But bankers argue that the resulting tight monetary policy led by Mr Salame, a former senior stockbroker at Merrill Lynch who counted Mr Hariri as one of his main clients, was pursued at a significant cost.

The high interest rates offered on T-bills aggravated debt servicing levels and crowded out private investment in the midst of a massive reconstruction effort. In the last four months of 1997, the currency's stability was put in doubt by two converging trends.

In the wake of the Asian turmoil, foreign institutional investors, who had flocked to buy high-yielding T-bills at the beginning of last year, sold virtually all their holdings, amounting to several hundred millions of dollars.

At the same time by last April, the central bank's relative lowering of interest rates on T-bills began to lead some Lebanese who had been attracted by the yields to question the state of public finances, sell their T-bills and convert their funds into dollars.

While the Lebanese saw the currency appreciate by 20 per cent since the end of 1992, they also saw the budget deficit, which in 1997 stood at 55 per cent of expenditure, versus a target of 36 per cent, consistently overshoot its target.

Internal debt, now at about $11bn, has almost doubled since 1995. And the fast growth of the first reconstruction years has now become sluggish, with Banque Audi estimating GDP growth for the first nine months of 1997 at only 3.5 per cent.

The dollar buying gained momentum in late September, when an economic plan presented by Mr Hariri and aimed at increasing revenues through new taxes was shot down by his own cabinet. According to bankers, it was Mr Salame, with an eye on his foreign exchange reserves, who then called on Lebanon's squabbling ruling troika – the Sunni prime minister, Shia speaker of parliament, and Christian Maronite president – to explain to them the need for political consensus to tackle the deficit.

"Our ability to maintain stability goes hand in hand with a fiscal effort," says Mr Salame. "The effect of central bank operations is always short-term. The fundamentals of the country are determined by public finances. It was important for us to have clear signs that the government and parliament will restructure public finances."

Mr Salame's move helped produce a rare consensus within the troika on a public recovery plan which promised to cut administrative waste and will allow the government to borrow $2bn on international markets to restructure the debt and reduce interest costs.

Salaries and interest payments make up almost 80 per cent of budget expenditures.

Mr Salame believes that the plan, coupled with the Saudi deposit, has raised confidence in the pound and will produce a long-term reversal of the trend seen in the last few months.

In Beirut's financial circle, a large Kuwaiti deposit is rumoured to be on its way to the central bank. "All this is behind us now, we have over $3bn of foreign reserves, with more on the way," says Mr Salame.

"Those who speculate against the pound are not acting in a patriotic way. There are no markets in the world where you don't have periods of doubt or crisis, but the important thing is to have a trend and today more people use the pound in their daily expenses. [That] was not the case a few years ago. We have to build confidence progressively and this takes time."

However, bankers and economists in Beirut say the markets need more tangible signs that the government is committed to improving its finances.

The first test will be whether parliament this month passes the 1998 budget proposal, which projects a 37 per cent deficit, and aims to raise revenues by 25 per cent and to trim expenditure.

"The markets need drastic signals," says a banker. "The public recovery plan agreed by the troika is important but it is not enough to restore confidence."

Roula Khalaf

NEWS DIGEST

Israeli coalition survives vote

Israel's coalition government yesterday survived the first parliamentary no-confidence vote tabled since David Levy, foreign minister, and his four deputies, resigned last week.

But the vote ended in a 54-54 tie, underscoring the fragility of the government. Mr Levy's departure left the coalition headed by Benjamin Netanyahu, prime minister, in control of only 61 seats in the 120-member Knesset [parliament].

The no-confidence motion was raised by opposition parties to protest at the government's economic and peace policies. Among deputies who did not attend were three rebels from within Mr Netanyahu's Likud party. In addition, two extreme rightwing deputies from the Moledet party who usually support the government abstained. Before the vote, opposition lawmakers attacked the government. Avraham Shohat, former finance minister, said Israeli policies would deter foreign investors by creating "a region of war and not a region for investment". *Avi Machlis, Jerusalem*

■ RWANDAN GENOCIDE

France denies arms exports

France yesterday denied a report that it authorised arms exports to Rwanda until May 30 1994, a month after the start of a genocide in which up to 800,000 people were killed. Yves Doutriaux, foreign ministry deputy spokesman, said France stopped authorising arms exports to Rwanda even before the United Nations called for an arms embargo against the then Rwandan authorities on May 17 1994.

Mr Doutriaux was reacting to the publication yesterday of a report by Le Figaro alleging the sale of French weaponry after the start of the 1994 bloodbath, in which Hutu extremists killed between 500,000 and 800,000 Tutsis and moderate Hutus.

The spokesman emphasised that approval of arms deals stopped "before a May 17 1994 UN Security Council embargo on arms to Rwanda, a decision taken by the Security Council on the initiative of France".

Le Figaro said French co-operation with the then Hutu regime in Rwanda "continued at least until the end of May, or nearly one month after the start of the elimination [of opponents] and about two weeks after the United Nations vote on an arms embargo." *AFP, Paris*

■ CONGO

Mobutu ally arrested

A businessman who was a close ally of Mobutu Sese Seko, the ousted Zaire dictator has been arrested and detained in Kinshasa, family members said yesterday.

Bemba Saolona, head of the business association in the former Zaire, now renamed the Democratic Republic of the Congo, was arrested on Saturday in his house in the capital's Gombe district by a group of soldiers with an arrest warrant and taken to Kinshasa's main prison, they said. "Up until now, we don't know why he has been arrested," one family member said.

More than 30 Mobutu allies, including directors of state enterprises and ministers, have been arrested since Laurent Kabila took power in May. Mr Kabila says the arrests are not politically motivated and has offered Mobutu allies freedom in return for restitution of money stolen from the state. *Reuters, Kinshasa*

Japan admits scale of bad loans

Potential risk put at Y76,710bn □ Trading partners step up pressure for prompt action on economic and financial problems

By Gillian Tett and David Wighton in Tokyo

The Japanese government yesterday admitted that the level of potential risky loans held by its banks was as large as Y76,710bn ($583bn).

The figure, higher than anything previously revealed, highlights the scale of the bad loan problem weighing down on Japan's stagnating economy.

Earlier official calculations, which had used a narrower definition of "problem" loans, had put the total value of bad debts in the financial system at just Y28,000bn.

The admission comes as Japan's leading trading partners step up pressure on the government to take firm action to tackle its financial and economic problems.

Ryutaro Hashimoto, Japan's prime minister, yesterday told parliament he "would not let a global recession start from Japan".

Next week parliament will debate government measures to boost the economy. These include a Y2,000bn special income tax cut and a Y30,000bn support package for the financial sector, of which Y13,000bn could be used to buy preference shares in banks.

Mr Hashimoto's failure to pledge further tax cuts disappointed the markets. The Nikkei 225, the main stock market indicator, fell 2.2 per cent to a two and half year low of 14,664.44.

Japan's trading partners, such as the US and Europe, are also likely to be disappointed by the measures.

Sir Leon Brittan, the European Union Trade commissioner, yesterday warned during an EU-Japan summit in Tokyo that the EU would not tolerate a further rise in Japanese exports to Europe unless Tokyo clearly tackled its economic problems. He also called on the government to "consider very carefully" calls for further measures to boost the economy.

EU officials, however, later expressed a level of satisfaction with assurances given by Mr Hashimoto. "The European side was gratified that the prime minister reassured us that targeted growth of 1.9 per cent this year will be generated domestically and not through exports," said Percy Westerlund, the European Commission's director of Far East relations.

Tony Blair, the British prime minister who was leading the EU delegation, used the summit to reiterate his confidence in the fundamentals of the Japanese economy while stressing the need for further deregulation, greater transparency and tougher financial supervision.

However, the Ministry of Finance yesterday insisted that the Y30,000bn support package should be sufficient to solve Japan's financial problems.

It also argued the new bad loan figure simply reflected a drive for better transparency. Until now bad loans have been measured according to a definition developed by Japanese banks. This recorded only loans that were clearly bad and was considered by most analysts to understate the problem.

The MoF has now asked the banks to move to US standards to measure these "bad" loans. And as a separate step, it has also asked the banks to provide a breakdown on all credit data.

Banks' total credit exposure was Y624,900bn in September, the MoF said yesterday. Out of this, Y11,400bn of "net" loans were considered partly or totally uncollectable. This figure was reached by subtracting collateral and provisions the banks hold against these bad loans from the total, meaning that the gross figure of bad loans could be over Y25,000bn, officials said.

On top of this, though, the banks also held Y65,300bn of potentially risky loans that they have not made provisions for.

The MoF insisted that most of these would not turn bad, and a recent Bank of Japan survey showed that 13 per cent of such loans had become uncollectable after three years.

Observer, Page 15;
Currencies, Page 27;
World Stock Markets, Page 38

Jakarta pledge steadies markets

By Peter Montagnon and Sander Thoenes in Jakarta

Indonesia's financial markets steadied yesterday after the country promised to announce agreement by Thursday with the International Monetary Fund on a revised reform programme designed to restore confidence in its economy.

Share prices, which fell by over 16 per cent last week, rose 2 per cent; the rupiah was stable at 8,500 to the dollar as hopes grew the IMF would agree to release the next tranche of its $38bn rescue package on schedule in March or even earlier.

Dealers said the markets took heart from the arrival in Jakarta last night of Larry Summers, deputy US Treasury secretary, who is to reinforce the IMF's message that international help for Indonesia depends on its own willingness to reform. Mr Summers is due to meet President Suharto this morning.

Bankers said concern remained about Indonesia's ability to push through reforms amid continuing calls for Mr Suharto to step down and signs of further strain in the economy.

Mr Suharto renewed his commitment to the IMF programme in a 90-minute meeting with Stanley Fischer, deputy managing director of the Washington-based organisation. "The president was very clear on his determination to stay with the programme and strengthen it and accelerate it. There was no ambiguity," Mr Fischer said.

As worries about the economy grew, it emerged that Astra, the country's leading carmaker, which has links to Toyota, has told its customers it is cutting production because it cannot afford to purchase components abroad at current exchange rates.

The rupiah's depreciation makes it impossible for most companies to afford debt service, adding to the risk of defaults on the private sector's $80bn foreign debt, bankers said. Particular concern yesterday surrounded a large Indonesian Chinese-controlled property company thought to have appointed a western investment bank to advise it on restructuring.

Mar'ie Muhammad, finance minister, said the government would announce a significant new package of measures on Thursday to coincide with the planned visit of Michel Camdessus, IMF managing director. Mr Fischer hinted this would entail revisions to last week's controversial budget which sparked market alarm by breaching IMF conditions, but both sides were tight lipped yesterday about other likely aspects.

Bankers said they hoped the IMF would press for an enforceable bankruptcy law and regulations to permit debt/equity swaps, which would speed much-needed restructuring of corporate debts. The prospect of foreclosure or dilution of controlling stakes through debt/equity swaps might encourage entrepreneurs to repatriate money from abroad to pay their debts, they said.

But several stressed the political limitations on Mr Suharto whose authority is waning before presidential elections due in March. "The political bit is the most difficult part. If that is ignored, the rupiah won't stabilise," said David Chang of Trimegah Securities.

An IMF deal needs to be accompanied by a simultaneous clarification of Mr Suharto's position and possible succession, added one western diplomat, but the political uncertainty is unlikely to be resolved this week.

As a further sign of world concern over Indonesia's problems, Ryutaro Hashimoto, Japan's prime minister, and Helmut Kohl, the German chancellor, phoned Mr Suharto yesterday to press the case for economic reform.

Goh Chok Tong, Singapore's prime minister, is due to arrive in Indonesia today. The island state's stock market fell a further 8.75 per cent yesterday amid deepening concern over the impact of the Indonesian crisis.

Some banks object to aspects of the J.P. Morgan refinancing plan

Cracks appear in S Korea rescue

By George Graham in London and Richard Waters in New York

International efforts to build a refinancing package for South Korea have started to run into difficulties with cracks emerging between groups of banks in different countries.

Banks in most countries have agreed informally to roll their loans to Korean banks forward to March 31, buying time for the country to negotiate a longer term refinancing arrangement. Some doubt still remains over whether the Japanese banks will also renew their Korean loans.

But banks in several European countries are baulking at the terms of an ambitious plan put forward by J.P. Morgan to put Korea's finances on a stronger footing by refinancing $25bn of bank debts through an issue of securities.

A number of bankers now believe that time is running out for this kind of voluntary restructuring, and that the country will soon have to begin formal rescheduling talks.

That would involve an official moratorium on loan repayments, and would mark a serious deterioration in Korea's financial condition, making it far more difficult for the country to return soon as a borrower in the international capital markets.

Although foreign banks and the Korean government have worked hard to avoid a formal moratorium, Moody's, the credit rating agency, announced last week that it was cutting its ratings for Korean banks on the basis that the forced rollover of interbank credits was equivalent to a default.

Some debt specialists have been critical of the way the problem has been handled. Banks have been grouped by region, rather than coming together in a single bank advisory committee. As a result, banks in each country have received different messages from different Korean officials.

Société Générale said last week that French banks had agreed to renew their bank loans to Korea until March 31, but Deutsche Bank, the German co-ordinator, said only that discussions were continuing.

Early indications from Korea also suggest that the plan hatched by bankers in New York is far from certain.

An official from the Korean Ministry of Finance surprised bank representatives in New York last Thursday with a plan that would leave the country's commercial bank debt on the books of Korean banks, rather than allowing foreign banks to swap it for bonds issued by the state, according to one person at the meeting.

Under this plan, the loans would be backed by a sovereign guarantee and the interest rate would be set by negotiation between the Korean government and foreign banks.

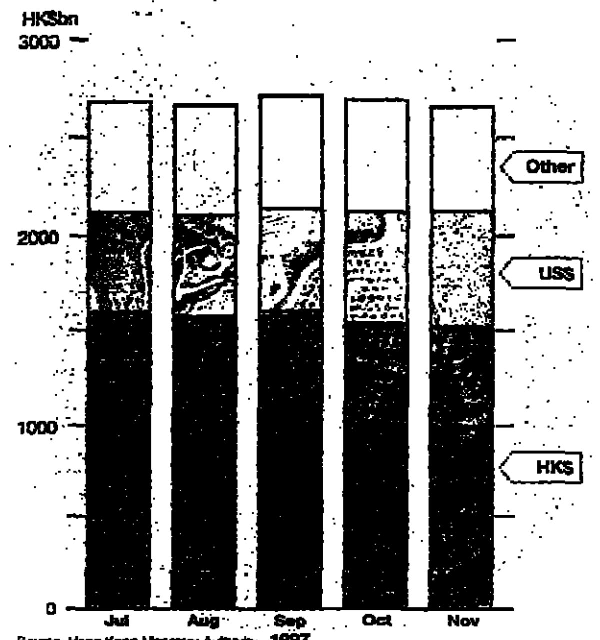
While this arrangement would meet the banks' desire for explicit Korean backing for the loans, the plan apparently won little support from bankers at the meeting.

Setting the interest rate by negotiation, rather than through a straight debt exchange, could well force foreign banks to accept a lower interest rate than they otherwise would have.

Nerves fray as HK eyes its currency peg

There has been a chorus of denials that the economy has entered a 'meltdown phase'

Hong Kong: bank deposits



Source: Hong Kong Monetary Authority 1997

Hong Kong's stock-market crash yesterday was nasty enough, wiping almost 9 per cent off the benchmark Hang Seng index and halving its value since last August's peak. Still nastier, was the nagging possibility that the territory could be heading towards greater carnage and the possible endgame for the currency peg to the US dollar.

That would mark a vicious new twist in the regional turmoil, which has so far left Greater China relatively unscathed. "The fall of the peg would lead to a banking and property collapse in Hong Kong," says Ma Guonan, head of economic research at Salomon Smith Barney. With many international banks heavily exposed to the territory, the rest of the world should shudder at the prospect.

Like many commentators, Mr Ma played down the immediate risk. "I don't think we are in the meltdown phase," he said. "We are seeing a vicious but unavoidable correction in a very volatile market," he said, referring to the string of terrible news, from the collapse of Peregrine, the Hong Kong-based investment bank, to soaring interest rates, and the sharp fall on Wall Street on Friday.

Mark Konyn, director of Dresdner RCM, the fund management group, agreed. "We are in the final leg of the downturn," he said. "This is not a meltdown."

Amid the upheaval, the Hong Kong dollar held steady, stronger than its peg rate of HK$7.80 to the US dollar.

Hong Kong's government sought to display sang-froid. "The market reacted rationally – there was no panic," said Donald Tsang, financial secretary. Last weekend, Anson Chan, chief secretary, dismissed the idea the government would be forced to adjust the peg. "What we need now is steady nerves, a cool head, and prudence."

However, steady nerves are increasingly hard to find. More serious, some in business and finance are now beginning to question the survival of the peg. While most believe the link should stay, they add increasing caveats to their confidence. "I am less convinced that the peg will survive than I was six months ago," said the head of one large industrial and financial group in the territory. "I don't think it will go soon, but nothing lasts forever, and if people start to focus on the endgame then it might become self-fulfilling."

These caveats are expressed in increased hedging of Hong Kong dollar exposure and a shift in Hong Kong dollar deposits. "We have been seeing a lot more demand for hedging," said the head of capital markets at one European bank in the territory. Although Hong Kong dollar deposits are still 57 per cent of the total, the share has been slipping since the onset of the regional crisis.

> The next few weeks in Hong Kong could prove decisive, even with China's backing

In defending the peg, the authorities' defences are bolstered by foreign exchange reserves of US$90bn. But ultimately, the issue will be decided away from the dealing rooms of hedge funds, determined instead by the duration of the crisis and by economic and political questions in Hong Kong and China.

On the first count, few expect rapid improvement. "This is the worst crisis I have seen in the region, and I don't think it will end soon," said Manuel Pangilinan, managing director of First Pacific, the Hong Kong conglomerate, which has announced a US$2bn asset sale to bolster its finances.

While First Pacific's problems, like Peregrine's, lie outside Hong Kong, the territory faces an increasingly bleak economic outlook. Dong Tao, senior economist at Schroders Securities, predicts gross national product growth this year of 2.7 per cent, compared with about 5 per cent in 1997, and rising unemployment.

That will bring increasing pressure on the government. Donald Tsang claims the currency system retains the support of the public, many of whom remember the chaos of 1983, which was triggered by Sino-British wrangles and which forced the introduction of the peg.

Criticism of the administration is growing. Martin Lee, leader of the Democratic party, said the main lesson of the regional crisis was that economic stability depended on accountability and transparency. He warned backward steps on democracy by the post-colonial government would push Hong Kong into decline.

Even if the territory holds firm in the face of declining economic prospects, China will play a crucial role in the survival of the peg. Huge falls in mainland-backed shares listed in Hong Kong yesterday, with the "red chip" index diving 22 per cent, reflected growing fears of a Chinese devaluation – which would deal a devastating blow to the currency in a leading trading partner.

Senior officials in Beijing yesterday repeated their determination not to devalue. Economists in Hong Kong believe economic gains would be limited, arguing that China's labour costs remain the lowest in the region and that exports remain strong. Political costs, by contrast, would be heavy, reflecting the credibility attached to the successful resumption of sovereignty over Hong Kong.

The next few weeks could prove decisive in Hong Kong, even with China's backing. Further evidence of anxiety and economic weakness could draw speculators into the fray, further eroding confidence. High interest rates raise the risk of another increase in prime rates following after Friday's rise from 9.5 per cent to 10.25 per cent.

"Predicting the bottom is like catching a knife," said one fund manager "The only safe prediction is pain."

John Ridding

Fight to keep staff

By John Authers in New York

Large US companies are investing heavily in family education programmes for employees in a bid to cut costs and improve employee retention, according to research launched yesterday by the US Department of Education.

The Conference Board, the business research organisation, found that every dollar spent on family-resource programmes yielded more than $2 in direct cost savings.

These cost savings are generated by lower absenteeism, lower healthcare costs for employees, and improved performance, according to the report.

It found employees' concern about the issue was growing, with 75 per cent of full-time employed parents saying they did not have enough time with their children. A majority of working women said they were more worried about this issue than they were about the crime rate.

A survey of 70 large companies by the Conference Board found that 35 per cent of employees with children under the age of 15 would move to new employers if they could be offered more flexible work arrangements.

Issuance of dollar-linked debt reminds investors how it all went wrong for Mexico

Shadow of *tesobonos* looms over Brazil

By Geoff Dyer in São Paulo

Facing a crisis of confidence in its economy and a run on its currency, a Latin American government issues dollar-indexed debt in its domestic market to ease investors' concerns, but ends up creating a further set of problems for itself.

Sound familiar? Throughout 1994 the Mexican government issued ever greater amounts of dollar-linked paper – largely in so-called *tesobonos* – in order to reassure those foreign investors who were worried about potential currency risk.

The build-up in domestic dollar debt was then one of the principal causes of the government's liquidity crisis after the bungled devaluation. The experience has left the word *tesobonos* scorched in the memories of many US fund managers.

Fast forward to late 1997 and traces of the same process can be detected in Brazil. With its currency coming under pressure as a result of the Asian economic crisis, Brazil has increased significantly the issuance of domestic dollar-linked paper.

Between the end of May and the end of November, the amount of government dollar-indexed securities rose from R$15.6bn to R$27.7bn (US$24.8bn), an increase of 78 per cent. The outstanding debt is equal to 53 per cent of reserves.

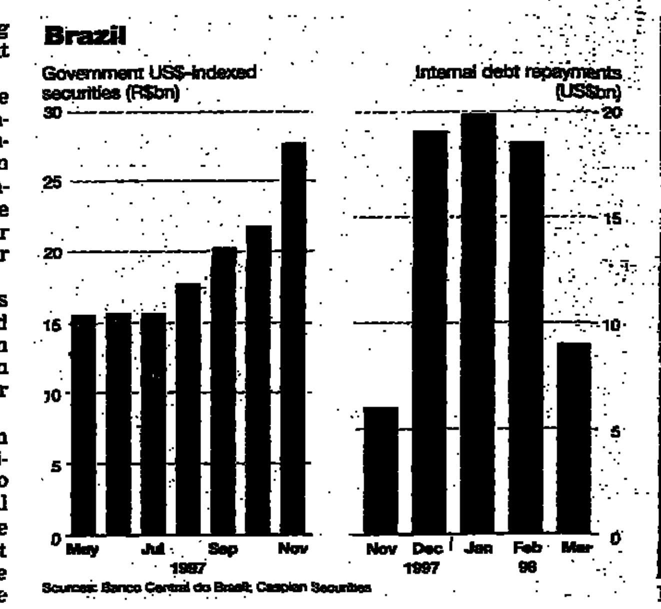
"We are well aware of the *tesobonos* curse," said Francisco Lopes, director of monetary policy at the Brazilian central bank. The government intended to keep the level of short-term dollar obligations within 20 per cent of reserves, he added.

However this goal has already slipped. At the end of November, the R$15.3bn which was due to mature in 1998 was equivalent to 27 per cent of reserves.

This creeping dollarisation forms part of a broader anxiety about Brazil's ability to roll over its huge internal debt stock of R$255bn. The near doubling of interest rates in order to defend the currency is putting pressure on an already large budget deficit. Meanwhile the financial market turmoil has coincided with a period of hefty debt repayments – $19bn in December, $20bn this month and $18.5bn in February.

John Welch, Latin American economist at Paribas in New York, said potential difficulties in rolling over the domestic debt were the "principal risk" facing the Brazilian economy.

"If the authorities continue to issue US dollar-indexed liabilities, the credibility of cash reserves will be compromised at some point," said Arturo Porzecanski, head of global research at ING Barings in New York in a recent report.



Could this be a re-run of the *tesobonos* experience? The growth in domestic dollar-linked debt has certainly alarmed investors. However economists stress important differences from the build-up to the Mexican crisis that make the Brazilian situation less risky.

First, the Brazilian securities have an average maturity of 17 months, which means the immediate threat of wide-scale conversion into dollars is much less than in Mexico, where the average maturity was considerably shorter.

Moreover, in the Mexican case foreign investors made up 70-80 per cent of the investor base in the domestic debt market. In Brazil, foreigners play a negligible role, owning probably around 5 per cent of outstanding paper.

Some economists argue that the nationality of these investors is irrelevant because when a crisis really takes hold, capital of all colours seeks an exit. However, François Gour, Latin American strategist at Caspian Securities, said that, unlike Mexico, Brazil had a large market of investors who were obliged to buy local assets.

Pedro Malan: has led drive for fiscal austerity AP

The institutions buying these bonds also have a different motivation from those in Mexico. *Tesobonos* were purchased by foreign fund managers looking for higher yields but no currency risk. In Brazil, the demand has come largely from less fickle Brazilian banks looking to hedge dollar positions.

In most cases these banks have acted as a counterparty to an investor looking to hedge their Real exposure, often by selling the currency in the futures market. A dollar-linked bond issue gives the bank a dollar asset to match its liability, without the need to go into the foreign exchange market, which would put pressure on the currency.

However, despite this subtle distinction, the same process is at work. The increasing issuance of *tesobonos* measured the declining degree of confidence of foreign investors in the currency: in Brazil the growth in dollar-linked paper is a yardstick for the level of hedging against a currency devaluation.

Perhaps the starkest contrast with the Mexico of 1994 has been the government's response. The Mexican government did not take tough monetary or fiscal action. Brazil's economic policy makers have introduced an austere fiscal package to restore confidence.

These decisive steps have earned Brazil some breathing space. Recent debt auctions have been much better subscribed and maturities are extending, easing fears about a failure to roll over expiring debt. Meanwhile interest rates have started to fall and reserves appear to be recovering.

However, investors will continue to watch the domestic debt market closely. A sharp worsening of the crisis in Asia or a large Wall Street correction could spark another wave of global market volatility and prompt a further liquidity crunch in emerging economies. And this time it would reach Brazil when the domestic debt market is already stretched tight.

US healthcare costs top $1,000bn

By Nicholas Timmins in Washington

US healthcare costs rose by the smallest amount in almost 40 years in 1996, but still topped $1,000bn for the first time, a study by the federal government's national health accounts team revealed yesterday.

The increase is small by historic standards – 4.4 per cent, or an all-time low of 1.9 per cent after adjusting for inflation.

It reflects the impact of managed care, the rapidly growing and controversial approach of limiting treatments to those which doctors and insurers believe to be effective, and paying doctors a fixed sum per patient, rather than a fee for each item of service they provide. By 1996, 60 per cent of Americans were covered by such schemes, compared to 36 per cent in 1992.

The small increase still left the US with the most costly health system in the world, consuming 13.6 per cent of the country's gross domestic product, a figure that has stood unchanged for four years.

But the study found signs that health insurance premiums were rising again last year, and would do the same in 1998 and beyond as insurers catch up on years of keeping premium increases below the underlying growth in costs.

On one estimate, only 35 per cent of health maintenance organisations were profitable in 1996, against 90 per cent two years earlier.

In addition, while the increase was the smallest since comparable records began in 1960, American consumers felt sharper increases in their personal contributions as employers shifted more of the cost of coverage to employees.

Overall, employees paid an extra $3.6bn last year, according to the study – fuelling resentment against managed care.

"Managed care and public programme initiatives targeted at slowing healthcare spending growth had a real impact on healthcare costs," Katharine R. Levit, one of the study's principal authors, said in Health Affairs, the journal which published the study. Other factors include overcapacity in hospitals and the health system which has encouraged plans to negotiate significant premium discounts.

The study also reveals a marked shift in spending from private to public sources, a move that will be further accelerated if President Bill Clinton's proposals to extend Medicare below retirement age is adopted.

Of the $1,035bn spent in 1996, 47 per cent came from public sources, against 40-42 per cent between 1975 and 1989. On average since then, public sector spending, chiefly on Medicare, the programme which covers the elderly, has risen at an average of 9.7 per cent, against an average annual increase of 5.8 per cent in private spending.

Top envoy fears Iraqi conflict

By Bruce Clark in Washington

Richard Holbrooke, architect of the Bosnian peace agreement, said yesterday the US faced a "very rough year" in foreign policy because of the risk of crises across a wide arc of the Balkans and the Middle East.

Flashpoints could emerge anywhere from former Yugoslavia to Iran. Mr Holbrooke singled out President Saddam Hussein of Iraq as "a greater challenge to us than anything else except Bosnia in the past six years."

"We are heading towards a confrontation with Iraq that could end with a significant use of force later this year," said the diplomat, the US administration's special envoy for Cyprus.

Greece and Turkey were "on an escalating collision course" and Iran was still a "sore point" for US foreign policy, he declared, in a speech to a global business forum organised by the Liberty Mutual Group.

The chances were "some combination of events will trigger another crisis" in the region stretching from the Balkans to the Gulf. But the Clinton administration would be judged favourably by history for developing a clear strategic vision in Europe, albeit belatedly, and engaging with President Boris Yeltsin in Russia.

The administration's Russia policy would be vindicated despite the "tremendous problems" posed by that country.

US leadership in Europe had been successfully reasserted by the Bosnia settlement, Nato enlargement and the partnership agreement Washington plans to sign with the three Baltic states later this week, he added.

Mr Holbrooke who began as an Asia specialist, said he was "appalled" when Asian politicians blamed their region's problems on the US and claimed exemption from western democratic values.

NEWS DIGEST

'Millennium bomb' call

The US Securities and Exchange Commission yesterday issued guidance calling on public companies to inform investors about plans to deal with the so-called "millennium bomb" on their computer systems.

The guidance, issued by the SEC's corporate finance division, says companies must make the information publicly available, and any companies which have not yet made a formal assessment of the material impact of the problem on their operations must inform investors.

The move follows growing congressional concern about the potential magnitude of the problem and its effects on the US economy. Legislation is being considered in both the House and the Senate to force companies and the federal government to pay closer attention to the issue.

The problem arises from the fact that many computers' two-digit dating system cannot tell whether "00" represents 2000 or 1900, potentially disrupting other activities. *Mark Suzman, Washington*

■ ONTARIO HYDRO

British Energy ponders role

British Energy, the UK nuclear utility, yesterday confirmed it was examining the possibilities of taking some role in Ontario Hydro's nuclear division.

Preliminary discussions with Ontario Hydro and its workers' union could eventually result in British Energy acquiring, managing or acting as consultants in the operation of some of the public utility's nuclear reactors.

An Ontario Hydro select committee on nuclear rehabilitation recently suggested public/private partnerships should be pursued to keep open seven nuclear reactors scheduled to be shut down this year.

Ontario Hydro made the decision to close the reactors in August as part of a C$5bn-C$8bn (US$3.4bn-$5.5bn) plan to restore its ailing nuclear division. A scathing internal report found that operational safety conditions at several installations were minimally acceptable.

Scott Morrison, Toronto, and Simon Holberton, London

■ PRICE-FIXING

Go-ahead for criminal cases

The US Supreme Court yesterday declined to hear an appeal on a ruling against a Japanese paper company, leaving anti-trust authorities free to pursue criminal price-fixing cases against foreign companies.

The court rejected a request by Nippon Paper Industries to overturn a judgment by a federal appeals court that US anti-trust law allowed such investigations if the case had "an intended and substantial effect on the US". Nippon, which was supported by the Japanese government, said the decision violated international sovereignty and could spark retaliatory action.

The case was initially brought by the Justice Department's anti-trust division, which alleged that Nippon Paper and other companies making thermal fax paper had conspired to fix prices in North America in the early 1990s. *Mark Suzman*

■ GUYANA POLL

Caricom to look into row

The Caribbean Community is sending a mission to Guyana this week to resolve a row over the conduct of last month's general election. The country is growing tense following three weeks of street protests and three bomb blasts last week.

The mission from the 15-nation community, of which Guyana is a member, will meet party leaders. The main opposition People's National Congress is calling for a new election, saying the vote won by the People's Progressive party was fraudulent. *Canute James, Kingston*

■ MICROSOFT IN COURT

Contempt hearing today

Microsoft's lawyers are to appear in court in Washington today, to defend the company against charges that it has been in contempt of the court by failing to comply properly with a judge's order.

Last month, Judge Thomas Penfield Jackson ordered Microsoft to "unbundle" its internet browser from the Windows operating system so PC manufacturers could choose, if they wished, browser software from a Microsoft competitor. Microsoft is offering PC manufacturers an older version of Windows that does not include a browser or the latest version of Windows with the browser removed, which is not fully functional.

The charge is the latest development in Microsoft's anti-trust battle with the US Justice Department, which is seeking fines of $1m a day against the software industry leader. *Louise Kehoe, San Francisco*

FINANCIAL TIMES SPECIAL REPORT

ASIA IN CRISIS

Complacency gives way to contagion

In the second of five reports, **John Ridding** and **James Kynge** describe how the impact of Thailand's devaluation spread around the region and the world

Growth, said Mahathir Mohamad, the Malaysian prime minister, is a wonderful buffer. Like a river in flood, it obscures the rocks below.

Before the Asian financial crisis developed, it had become almost an article of faith that the economies of the region would maintain rapid growth *ad infinitum*. Malaysia's own government target was for an annual growth rate of at least 7 per cent until 2020.

But when Thailand began to unravel, so too did the conviction that the south-east Asian tiger economies had somehow found the secret of perpetual growth.

Investors who for years had turned a blind eye to warnings of structural imbalances, quickly began to reassess the fast growing economies of the region. The subsiding floodwaters revealed all too many rocks.

The dangers varied from place to place. In Dr Mahathir's own country, Malaysia, the main problem was that the quality of the economy's growth had been deteriorating for several years. There was a chronic shortage of labour, which resulted in wages rising at a far higher rate than productivity. To compensate, the government had encouraged a surge of investment – in 1996, investment accounted for 43 per cent of gross domestic product, the highest in the region.

But the average returns from such investments had been shrinking as the authorities embarked on progressively more grandiose and economically questionable infrastructure projects.

One was the world's tallest building, Petronas Towers; another a new administrative centre, Putrajaya, to be built just 25km south of the capital for an estimated M$20bn (US$8bn at the pre-July rate of exchange).

Biggest of all was the huge Bakun dam project, which at a cost of M$13.6bn was to be the most expensive and yet least efficient new power scheme in the country. It has since been postponed indefinitely.

The investment vortex sucked in imports and led to a growing current account deficit. At the same time, exports appeared to be losing competitiveness, partly due to competition from China and other lower-cost countries, and partly due to Malaysia's relatively slow ascent up the value-added ladder. Yet the government stilled the alarm bells by directing a compliant local media not to report negative news.

Cushioned from reality, many companies continued borrowing at a feverish pace until late 1997. By the end of the year, total domestic loans stood at around 170 per cent of gross domestic product, the highest level of domestic indebtedness in south-east Asia.

Though the different countries of the region each had their own characteristics, the overall picture – overheated economies, creaking financial systems, flagging competitiveness – was similar. In the aftermath of Thailand's decision to let its currency, the baht, float downwards, most were forced to follow suit. Of the south-east Asian economies, only Hong Kong managed to retain a currency pegged to the US dollar.

But though the move towards currency depreciation was swift, there was much less haste in coming to terms with the structural problems that the Thai crisis revealed. Indeed, the prevalent attitude was one of denial. Dr Mahathir, for example, conducted a highly visible campaign to blame others for Malaysia's problems.

At the 30th anniversary celebrations of the Association of South East Asian Nations (Asean) in July, he delivered a vintage performance. George Soros, the US financier, he declared, was the arch-villain in a conspiracy to impoverish south-east Asian nations by attacking their currencies.

Mr Soros denied any involvement in attacking the ringgit, Malaysia's currency, and Dr Mahathir did not supply evidence to back his claim. But for weeks in August Mr Soros became a national *bête noire*, everyone from bankers to taxi drivers lambasted him.

Dr Mahathir ascribed the turmoil in financial markets to an ever-widening cabal of miscreants. Foreign fund managers were selling Malaysian shares because they were "racist"; rapacious currency speculators were ignoring Malaysia's sound economic fundamentals; the west was gloating over the crisis in south-east Asia; rumour-mongers, who "should be shot", were spreading lies and a "Jewish agenda" was at work against the country.

The rhetoric helped shore up Dr Mahathir's already formidable domestic power base. But several influential businessmen began in private to question the wisdom of Dr Mahathir's remarks; almost every time he attacked his perceived enemies, the ringgit and stock prices fell.

More damaging to investor confidence than the prime minister's speeches were several decisions which appeared to contravene free-market principles. In September, the government briefly outlawed the short-selling of stocks (the selling of shares you do not own in the hope of obtaining them later at a cheaper price to complete the deal at a profit).

It also unveiled a plan to use state pension fund money to prop up share prices by buying stocks from Malaysians – but not foreigners – at a premium to prevailing prices.

These decisions were announced by Dr Mahathir alone. The conspicuous absence of his deputy and probable successor, Anwar Ibrahim, who is also finance minister, fed speculation of a rift between the two.

Malaysia's bold attempt to brush the problem aside was unique. But in most other countries of the region, governments still hoped that the economic turbulence unleashed by the Thai devaluation would soon pass. That view was shared by a number of influential western officials.

The two sides came together at the annual meetings of the International Monetary Fund and the World Bank, held – by ironic coincidence – in Hong Kong and intended, at least in part, to celebrate the region's economic progress.

Much of the corridor gossip at the meetings was dominated by Dr Mahathir's outspoken confrontation with George Soros, given a extra twist by the presence of both men in Hong Kong. In perhaps the most emotional speech heard at an IMF/World Bank conference, the Malaysian premier lashed out at "unscrupulous profiteers" whom he charged with manipulating markets and seeking to impoverish the region.

"When they are annoyed they can destroy us altogether, they can reduce us to basket cases," he added, pointing to the "rape" of Malaysia's share market.

Dr Mahathir prescribed a bold solution – a ban on currency trading. "It is unnecessary, unproductive and immoral," he declared. Later, Dr Mahathir told journalists that Malaysia was considering curbs on currency trading. Mr Anwar was left to clarify that Malaysia had no plans actually to ban currency trade.

Mr Soros, also in Hong Kong, struck back the next day. Condemning Dr Mahathir as "a menace to society", the financier accused the prime minister of using him as a scapegoat to cover up his own policy failures. The "Asian values" preached by the premier also came under attack. "A convenient pretext for resisting democratic aspirations," said Mr Soros.

Such fireworks aside, most delegates and officials were more concerned to play down worries that Asia was facing a serious crisis. Michel Camdessus, the managing director of the IMF, and James Wolfensohn, the president of the World Bank, uttered reassuring statements on Thailand's progress. "I am satisfied with what they are doing," said Mr Camdessus, although he did add that the IMF was "impatient" to see reforms in the financial sector.

Bankers, businessmen and politicians from the major economies all predicted a rebound for the region. "This contagion effect is greatly exaggerated," insisted a senior executive of one European investment bank.

The Thais themselves did much to soothe ruffled feathers. In a public act of contrition, the country's top economic and financial officials went before the assembled press to state their case.

"On behalf of the government and the people of Thailand, we are here to make some important statements, to bare ourselves, if you will, to the world," said Thanong Bidaya, then finance minister.

Visiting dignitaries seemed impressed. "I think it is fair to say that they have expressed real commitment to working with the IMF and World Bank", said Robert Rubin, US treasury secretary. In private, however, one economic official was much less optimistic. "There is still a lack of appreciation in Bangkok about just how serious this is," he said.

It was clear, however, that some of the countries in the region would require external assistance. The discussion on this point, spurred by Japan, revolved around the creation of a possible "Asian Monetary Fund", which might disburse funds according to a different set of conditions to those imposed by the IMF.

The implicit message was that Asia was mature enough to manage its own financial affairs, in bad times as well as good, and that the western-dominated institutions, such as the IMF, might not know best when it came to dealing with the region.

The idea was viewed with some dismay by the main western powers, especially the US, which saw it as a threat to the IMF's ability to impose appropriate discipline on troubled economies. After the IMF meeting, US opposition won the day and the proposal was greatly weakened – not least because the scale of Asia's problems was now becoming clear.

There would indeed be an Asian fund, but it would be under the IMF's jurisdiction, and would be available only to countries that had already agreed to the IMF's conditions.

Having fought so hard to preserve the IMF's central role, the western powers would soon find themselves committed to larger-scale lending to Asia than they had ever envisaged.

The event that persuaded the international financial community that the Asian crisis was both serious and lasting came a month later, in late October.

Like the IMF conference, it took place in Hong Kong, still firmly pegging its currency to the US dollar. The incident started as a few twitches in the interbank market. By Thursday October 24, the twitches had turned into convulsions: overnight interest rates had soared above 300 per cent.

That surge signalled the battle for the Hong Kong dollar, the last Asian currency to be linked to its US counterpart. "It was the first real live test of the exchange rate system," said Donald Tsang, financial secretary. "The shoot-out at the OK Corral", was how one investment banker put it.

As the Hang Seng share index fell by more than 25 per cent in four days, the ripples spread across the world. Stock markets from Wall Street and London fell victim for the first time to Asia's financial upheaval, confirming the threat of contagion.

Though the immediate crisis passed in Hong Kong, with overnight rates falling back to 4.5 per cent within a few weeks, the events of those nerve-frayed days have resounded ever since.

This week, the Hong Kong dollar has again been under strain, and Peregrine, the territory's leading independent investment bank, has gone into liquidation.

Hong Kong's commitment to the dollar peg involves more than just *amour-propre*. So soon after the return to Chinese sovereignty, a successful assault on the currency system would have devastating effects.

"If the peg goes there will be capital flight and a collapse of confidence," said John Mulcahy, managing director of W.I.Carr. "The peg is like chastity," added another investment banker. "You can lose it once."

Despite the stakes, or perhaps because of them, the dark days of October revealed the resilience of Hong Kong. There was panic selling of shares, but not capital flight. Markets which had closed during the 1987 crash stayed open and the financial authorities held their nerve.

Joseph Yam, the head of the Hong Kong Monetary Authority (HKMA), and the guardian of the exchange rate system, had long been preparing for a challenge to the peg.

Armed with US$90bn in foreign exchange reserves and a track record of tough action, he signalled an uncompromising stance towards banks providing funds for speculators.

Those that repeatedly borrowed from the liquidity adjustment facility – the last resort for money market funds – could find themselves paying punitive rates, he warned.

"It all started on Tuesday October 21 with substantial orders to sell Hong Kong dollars for US dollars, and it intensified on Wednesday," said Mr Yam. On the Thursday, he said, the HKMA sat and watched as banks desperate for funds to settle short positions on the Hong Kong dollar pushed interest rates skywards.

By Thursday afternoon, Mr Yam was confident the speculators had been repelled. But faced with the risk that the monetary squeeze could push overnight rates "even to 1,000 per cent", and in anticipation of US dollars being sold back to the HKMA, Mr Yam injected Hong Kong dollars into the system.

"The short position on Hong Kong dollars quickly closed on Friday," he said. "That was the end of the attack."

Victory was won only at a price. In an economy built on the twin pillars of banking and property, a rise in interest rates causes considerable damage. In the months that followed the October attack, that damage has become clear.

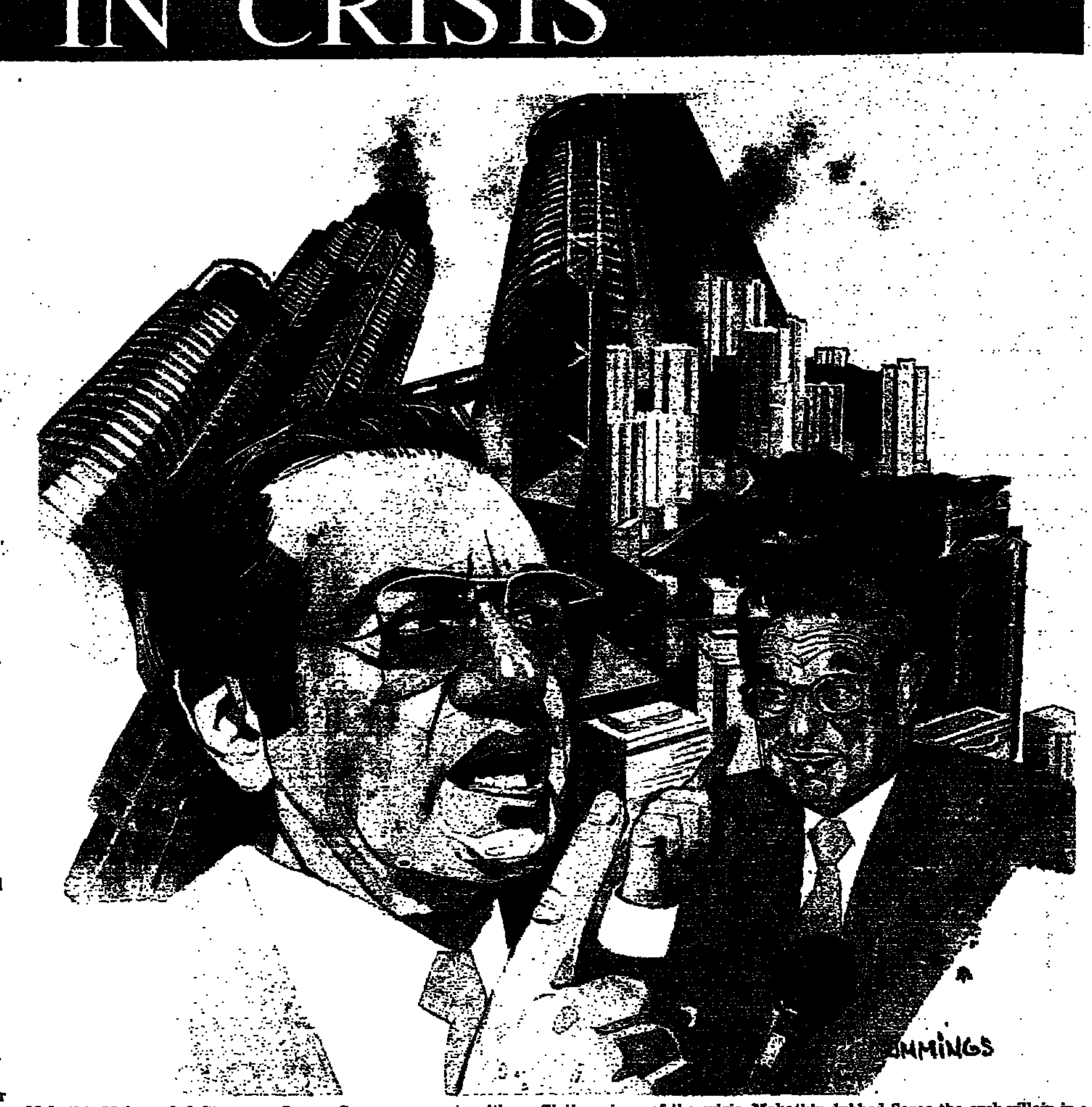
Attention in Hong Kong, in the closing days of October, was focused on the local currency and stock market. But around the region – and around the world – the crisis was building in intensity. Thailand's rescue package had been agreed with the IMF some time before, but the depth of its commitment to reforms was unclear.

Political uncertainty was added to the mix, as the Thai government resigned. Indonesia's IMF package was close to agreement, but the Suharto government's willingness to implement would soon come into question.

More important still, tensions were building up elsewhere – in South Korea and Japan, the two countries in the region with the most important economies and the widest financial and commercial connections with the rest of the world.

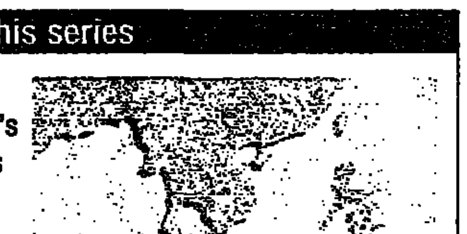
Korea, itself a rapidly growing tiger economy, was exposed to the same pressures that had beset the rest of the region – heightened by political uncertainty ahead of an election scheduled for December. Its ambitious industrial conglomerates, or *chaebol*, had built their worldwide expansion plans on huge mountains of debt, from local banks and international ones. Devaluation had raised the cost of paying off foreign-currency loans. If that threatened the corporate sector's viability, it also risked undermining the domestic banking system.

All Korea's international creditors would suffer from such a crisis – and prominent among them would be the Japanese banks, already suffering from the huge domestic bad debts generated during the bubble years of the 1980s. Japan's economy was showing no signs of emerging from the stagnation caused in large part by its weakened financial system. Until now, Japan had managed to muddle through, keeping its big financial institutions afloat. As November began, the Asian crisis started to call into question the viability of that strategy.



Mahathir Mohamad (left) versus George Soros: opponents with conflicting views of the crisis. Mahathir dubbed Soros the arch-villain in a conspiracy to impoverish south-east Asian currencies, while Soros condemned Mahathir as 'a menace to society'

Coming up in this series



- **Tomorrow:** The threat to Japan's financial institutions
- **Thursday:** Korea's struggle to avoid default
- **Friday:** Where next for Asia?

PROFILE: DONALD TSANG

Calm defender of the dollar peg

Donald Tsang: 'a champion of one country, two systems' Reuters

At the end of "Black Thursday" in late October, amid the despair of a stock market crash, Donald Tsang, Hong Kong's financial secretary, took a sip of tea and addressed his audience.

"An interesting day, not too exciting," he said of the most serious assault until then on the territory's 14-year-old exchange rate system. "The speculators arrived some time last night. I had a reasonably busy time."

Such studied understatement masked the gravity of the situation. But it underlined Mr Tsang's strategy of calming sentiment. Last autumn, the strategy worked. Now, with Hong Kong's financial markets again under pressure and its leading independent investment bank in liquidation, a cool head and his ability to sustain confidence will once more be vital to Hong Kong.

Mr Tsang is not always known for a cool head. Outbursts opposing industrial policy or curbs on democracy frequently placed him in the front line of Hong Kong politics. But the financial secretary has managed to steer a steady economic course through the territory's return to Chinese sovereignty last July.

It was perhaps his outspoken stance which ensured that he stayed in his job under the post-colonial administration. "He was seen as champion of one country, two systems," says one diplomat, referring to the formula which underpins the transfer of sovereignty and promises autonomy for Hong Kong. "If he had been replaced, I think investors would have been very worried about China's intentions."

As before, Mr Tsang is determined to stick to his guns. There is no question of a change in policy, he says, despite the rise in interest rates needed to protect the Hong Kong dollar, the damage to the property sector – which has already seen prices fall by 20 per cent – and the devastation in the tourist industry.

Such staunch support for the fixed exchange rate link to the US dollar might seem curious from someone with Mr Tsang's *laisser faire* credentials. But he insists the territory's small open economy needs an exchange rate anchor for stability. Given the currency system's crucial role in maintaining investor confidence under Chinese sovereignty, he believes any tinkering would deal a heavy blow to confidence.

The last time that happened, the political crises of 1983, continues to haunt Mr Tsang. "That summer was horrendous," he says, recalling the bank runs which prompted the establishment of the linked exchange rate system. "Housewives were willing to give up Hong Kong dollars for toilet rolls. It was Hong Kong's most turbulent time."

Avoiding renewed turbulence, however, will prove a stern test. With US$90bn in foreign exchange reserves, more than the currency in circulation, it would be very difficult for speculators to break the peg. But capital flight could. And although rumblings of discontent from the retail and industrial sector remain relatively muted, continued high interest rates could crack the consensus behind the currency system.

Across the border, further evidence of slowing growth could prompt China to devalue the yuan, a move which would fuel doubts about the Hong Kong dollar peg. With other currencies in the region lower now than in the autumn, pressure on the mainland's exports and on its present policy mix are higher than ever.

In the last severe test – the autumn crisis – Mr Tsang liked what he saw from Beijing. "During that week [of the crisis] there was not one telephone call, fax or instructions," he said. "I was pleasantly surprised."

John Ridding

Systems 'bomb' plea goes to Clinton and Blair

By Jimmy Burns in London

The US, UK and Canadian governments will today be confronted by an unprecedented note of alarm from business leaders over the threat posed by the computer "millennium bomb".

In a statement to be delivered to President Clinton and the British and Canadian prime ministers, more than 60 senior executives warn that "rapid and focused action" is needed to avert serious disruption to public services on both sides of the Atlantic. The "bomb" refers to the inability of older computer systems to cope with the date change at the end of the century.

The statement – which has been made available to the FT – claims that, while businesses are taking adequate steps to protect internal systems "total success will be difficult to achieve" because of interaction between private and public sectors. "We fear that governments lag in assessing and addressing the problem," says the statement. It warns that disruption could extend to "delays in welfare payments, the triggering of financial chaos by a breakdown in revenue collection and debt management, and malfunctions in air traffic control and defence systems".

Among the executives signing the statement are Sir Brian Pitman of the Lloyds TSB banking group, Robert Brauman of British Aerospace, Martin Broughton of BAT Industries, Sir Robert Clarke of Thames Water, Donald Guntherе of the Bechtel Group, Niall FitzGerald of Unilever, Pierre Lortie of Bombardier, William Rogers of Texas Industries and Peter Pestillo of Ford Motor Company.

A driving force behind the letter is thought to have been Mr FitzGerald. Unilever said he was concerned about "external threats" to the private sector posed by inadequate co-ordinated action.

Other signatories include academics and trade union leaders who agreed to the letter after a meeting in California last month under the auspices of the British North American Committee, an *ad hoc* forum which meets twice yearly to discuss issues of pressing concern to commerce and industry.

The BNAC is sponsored by a British registered charity, the British North American Association, and two North American think-tanks, the National Policy Association in Washington DC and the C.D. Howe Institute of Toronto.

Simon Webley, the BNAC's director, said: "Governments are being less than frank by telling us that they have the problem under control." The letter was described as "very well timed and necessary" by Robin Guenier, head of Task Force 2000, which has been advising the UK government on the bug.

Brussels may back easing of beef ban

FT Reporters in London and Brussels

The European Commission is expected tomorrow to back move to allow Northern Ireland to resume the export of beef nearly two years after the EU banned exports of British beef.

The favourable decision would bring hope to the UK beef industry, which was yesterday hit by warnings from the British Medical Association that consumers should treat all meat as potentially contaminated.

Under the Commission proposals, the export of cattle from certain herds certified to be free of BSE, or "mad cow disease", would be permitted. The step would initially favour Northern Ireland, because the region has Britain's most complete computerised tracking system for cattle.

The move would represent a significant shift in the position of the Commission. But its decision could well be rejected by the chief veterinary officers of EU member states, or by ministers at the agriculture council.

Meanwhile, the association's warning that all raw meat in the UK should be treated as contaminated and a potential source of food poisoning was criticised as alarmist. The association told the House of Commons agriculture committee of widespread incidents of salmonella, E.Coli 0157 and campylobacter food bugs. Last year a record 1m people were hit by food poisoning.

Doubt over BSkyB digital launch

Set-top box maker says it is unlikely to start manufacture until summer

By John Gapper and Cathy Newman

Pace Micro Technology, one of four makers of set-top boxes for British Sky Broadcasting's 200-channel digital television service, yesterday cast doubt on the ability of BSkyB to launch by late April or May. Pace said it was unlikely to begin making boxes until early June.

BSkyB said it was on track to launch its digital service in the "second quarter" of the year. Until now, BSkyB has talked of a "late spring" launch, which has been widely interpreted by analysts to mean late April or May.

BSkyB also confirmed that SES, a Luxembourg-based operator of satellites, would move one of its Astra satellites into a new orbit to guarantee a prompt launch. This follows a delay to a satellite that BSkyB will eventually use.

The Pace announcement is the latest development to threaten a postponement of BSkyB's launch until at least June. Although this would be a modest adjustment, it helped knock 3 per cent off BSkyB's shares in London yesterday.

The market's reaction illustrates the nervousness surrounding the launch of digital television services.

> June start would clash with soccer series to be shown by rival terrestrial networks

Launches are also planned by the British Digital Broadcasting consortium and some cable companies.

In practice, a delay of BSkyB's service until early summer would not be disastrous.

It already has an existing analogue service to tide it through and would also easily beat the other planned launches.

The difficulty with launching in June, rather than in April or May, is that it would clash with the soccer World Cup, the leading summer event for many TV viewers, which is to be shown in Britain on the BBC and ITV terrestrial channels.

Neil Blackley, a media analyst at Merrill Lynch, the US investment house, said the World Cup is likely to draw a big audiences on terrestrial television.

BDB, a company owned by Carlton Communications and Granada Group, faces obstacles in launching a service around October this year. It is seeking a chief executive, and also has technical hurdles to overcome.

BSkyB's debate over set-top boxes, which unscramble digital TV signals, is common to broadcasters in several European countries. Eventually televisions will have the technology built in.

Analysts support the view that such services will build up from a slow start. Datamonitor estimates that 2.3m satellite boxes will be sold in Europe this year, and the total number installed will rise to 13.4m by 2002.

One problem is lack of agreement in the US or Europe about operating standards for set-top boxes. Microsoft and Oracle are among companies competing with Open TV, which will provide software for BSkyB boxes. Malcolm Miller, chief executive of Pace, says production is affected by uncertainty among broadcasters about what services to carry, particularly interactive ones such as home shopping and banking.

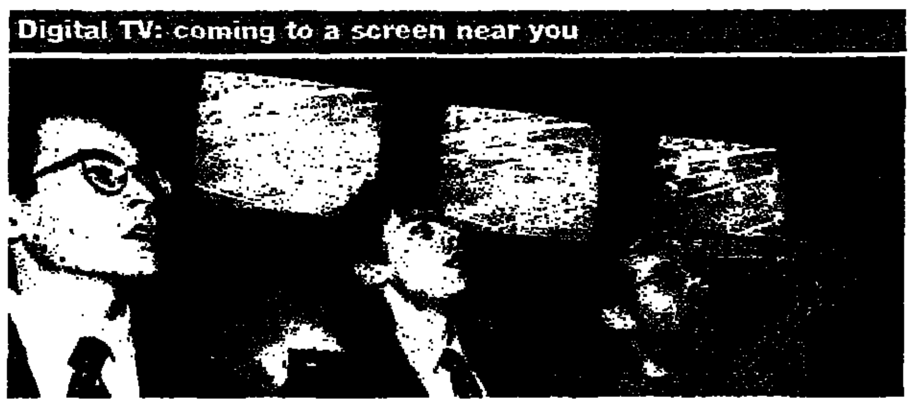
The key problem delaying BSkyB relates to British Interactive Broadcasting (BIB), an interactive shopping and banking service that will form part of its digital offering. BSkyB owns BIB jointly with other companies.

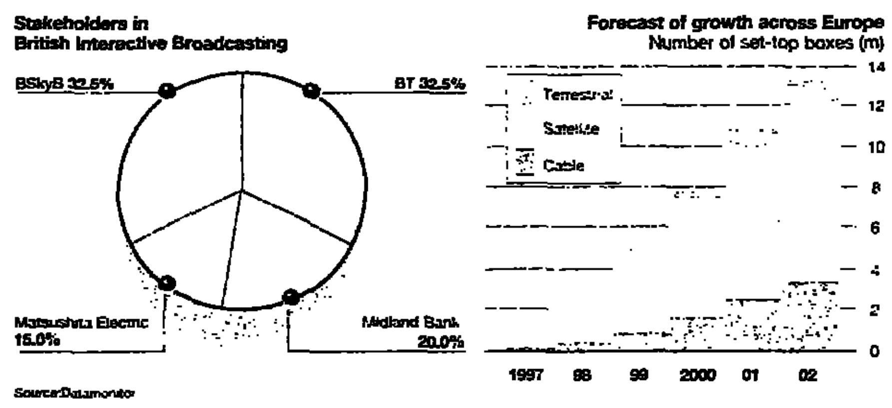
BIB was formed to defray the subsidy to lower the prices of digital set-top boxes from their wholesale level of about £400 each to a shop price of £200. This is seen as essential to attract sales from consumers.

But BIB is under investigation by the European Commission, which is worried about the linking of two dominant forces in the UK market in BSkyB and British Telecommunications. This means its financial support is not guaranteed.

As a result, BSkyB may have to provide temporary finance to get manufacturers to begin production and reclaim those costs from BIB.

Digital TV: coming to a screen near you





Pollution curb is prompted by EU

By Leyla Boulton, Environment Correspondent

The government yesterday unveiled proposals to crack down on groundwater pollution in response to warnings of legal action by the European Commission.

The proposals could cost British farmers up to £500m ($800m) to implement, according to a government consultation paper. Other polluters likely to be affected include clothes cleaners who store solvents in old storage tanks, and military bases where chemical and fuel supplies could seep into water supplies.

A senior government official said yesterday precautionary action was being taken to avoid polluting groundwater that was mostly "clean and good".

He said this was in line with the UK's keenness for EU agreement on a water directive framework during its six-month presidency of the EU.

But officials said the move followed a complaint last year by the EU's executive body that Britain had failed properly to implement a groundwater directive.

The commission acted after contamination last year of a private borehole in the north of England by sheep dip, already criticised for allegedly harming the health of farmers.

● A report by the government's Committee on the Medical Effects of Air Pollution will confirm research that pollution from vehicle exhausts causes the early deaths of up to 10,000 people suffering from respiratory diseases.

PCs safe from network rival, says Compaq

By Paul Taylor in London

Personal computers will remain the mainstay of most big corporate information technology networks and are not threatened by network computers, according to independent research published yesterday by Compaq Computer, the world's biggest PC manufacturer.

According to the UK-based research, almost three quarters of IT directors and managers see no role for the NC – a diskless machine designed to operate over computer networks – as a PC replacement in their organisations and 72 per cent do not expect to purchase NCs within the next two years.

Significantly, just over a third cited the main advantage of moving to NCs as breaking the stranglehold of Microsoft in the PC market. That finding underlines the current hostility felt by some IT mangers towards Microsoft, and their fear of becoming overly dependent on the US software company.

The research was conducted by Benchmark Research and based on interviews with almost 400 IT directors and managers in companies with more than 250 PCs. Larry Ellison, chairman of Oracle, launched the NC concept over two years ago amid concern over the costs of managing increasingly complex PC networks.

Early NCs have yet to win widespread acceptance. In response, traditional PC vendors including Compaq backed by Intel, the US semiconductor maker, and Microsoft, the software developer, have launched the NetPC – a slimmed down PC. According to the Compaq research, 44 per cent of IT managers view the NetPC as a viable PC replacement.

Just over half the respondents to the survey did not believe the NC would reduce overall IT costs and two-thirds believed the rewriting of existing applications was the biggest cost associated with implementing NCs. The main disadvantages of NCs are seen as reduced flexibility and the need to replace hardware.

Savings on net links 'missed'

Companies are wasting money because they are reluctant to change their internet service provider, even though some are paying three times as much as others for a fixed link, according to the latest British Telecommunications-sponsored internet report.

The study was prepared by Durlacher, the multimedia research firm, and based on a survey of more than 300 businesses. It says 80 per cent of companies using the internet have never tried another provider and only 4 per cent have ever stopped using an access provider because of cost. The survey shows that some companies are paying more than twice as much as others for a 64Kbit fixed link and up to 28 times as much as others for a standard dial-up modem account.

Sun Microsystems, Page 17

Minister lauds state work scheme for jobless young

By Andrew Bolger, Employment Correspondent

The government said yesterday it expected 150,000 people to take up the *environmental taskforce option* of its welfare-to-work scheme for the young unemployed.

Under the New Deal for the long-term unemployed, 18 to 24-year-olds face cuts in benefit unless they join the environmental taskforce, enter full-time training or take a subsidised job.

Ministers are anxious to allay concern that the environmental taskforce will be seen as the scheme's least attractive option.

Andrew Smith, employment minister, promised the government would make sure the taskforce offered the quality of work and training to get young people into jobs and bring real benefits to the environment. He said: "Our young people need the skills and confidence to face the jobs markets. The environmental taskforce option provides a constructive way to self improvement through an array of jobs and choice which is high in quality and worlds apart from anything that has gone before."

● Employers are continuing to invest more in training their staff – although the amount of cash spent per individual dropped slightly last year, according to the Industrial Society.

The society's annual survey of training budgets found an average real terms increase in spending of 2.24 per cent, which it described as reasonably encouraging in view of increasing evidence of *skills shortages*.

The survey of 490 training and personnel professionals found that last year organisations spent an average of 1.12 per cent of their turnover on training – up from 0.95 per cent in 1996 and 0.85 per cent in 1995.

Martin Wolf, Page 14

'If there is an area of concern, it is Korea,' says Foreign Office minister

Investment from Asia 'healthy'

By David Buchan, Diplomatic Editor

Inward investment into Britain is holding up in spite of the financial problems afflicting Asian companies, Derek Fatchett, the Foreign Office minister responsible for commercial promotion, claimed yesterday.

But international competition to attract available investment is likely to get harder, and the Invest in Britain Bureau (IBB) – which the Foreign Office now co-manages with the Department of Trade and Industry – is selectively reinforcing promotion in Asia while boosting its efforts generally in the US.

The Foreign Office is putting new IBB staff into Taiwan and Sydney, increasing its commercial presence in San Francisco and opening new offices in Houston and Boston.

"The overall level of inquiries [from non-UK investors] is running at about the same level as 12 months ago," said Mr Fatchett in an interview. "We're not experiencing any clear downturn," he said, though he admitted that "if there is an area of concern, it is Korea".

Lucky Goldstar's electronics expansion in south Wales still looks as though it will go ahead, but Hyundai has put its Scottish semi-conductor project on hold. However, Mr Fatchett said "our view is that big Korean companies had already their long-term commitments to the UK, and in the short term we had not expected prior to the latest events any flood of inward investment".

He was far more confident about Japan and Taiwan: "We continue to get strong interest from Taiwan which is looking for European markets," the minister said. He pointed to last month's announcements by ADI of Taiwan to make monitors in north-east England, and by Acer Peripherals of Taiwan to make peripherals in Wales.

In line with the Foreign Office's vaunted partnership with the private sector, the six new "investment-wooers" it is sending into the field this year are on secondment from Barclays, NatWest, BT, Coopers and Lybrand, Price Waterhouse and Lovell White Durant. Such people, Mr Fatchett suggests, are better equipped than regular diplomats to "appraise inward investment and to provide good information on the market". In the separate area of export promotion, the Foreign Office has already dispatched two bankers on short assignments to Germany and Serbia, even though the latter is still denied international official credit.

Mr Fatchett is also joining the DTI in providing "after-care" for investors in the UK. Unusually for a Foreign Office minister, this has involved him recently visiting Honda and Motorola plants in Swindon, south-west England.

British and Irish pave way for deal

Plan put forward for joint N.Ireland ministerial body

By John Murray Brown in Belfast

The key element of the joint British-Irish paper on a proposed settlement for Northern Ireland is a new British-Irish agreement which envisages a ministerial body with representatives from a Northern Ireland assembly and the Irish Parliament.

The British-Irish agreement would replace the existing Anglo-Irish agreement of 1985 and encompasses four main elements, the new north-south body, an inter-governmental council linking the two Parliaments in the two islands and implementing bodies to carry out the policies agreed by these new bodies.

The document tabled yesterday at Stormont titled "propositions on heads of agreements" represents the two governments' "best judgments" on a likely deal. The two-page document covers six areas – constitutional change; a new power-sharing assembly elected by proportional representation; the new British-Irish agreement; provisions to protect religious and civil rights; and a range of practical measures including "prisoners' security in all its aspects, policing and the decommissioning of weapons".

The document refers to "balanced constitutional change" without mentioning the likely amendments in articles two and three of the Irish constitution which contain a territorial claim over Northern Ireland.

Instead, any change would be based on "a commitment to the principle of consent" and would cover not just the Irish constitution but British constitutional legislation.

On the assembly, the paper suggests the body would exercise devolved executive and legislative responsibility over at least the responsibilities of the six Northern Ireland government departments. The document studiously avoids explicit reference to "power-sharing", but makes clear there would be "provisions to ensure that all sections of community can participate and work together successfully". But the most radical element is the re-forged British-Irish agreement which is covered under four main headings.

- The inter-governmental council will include representatives of the two governments, the new Northern Ireland administration and the proposed parliaments in Scotland and Wales.
- The north-south ministerial council will meet twice a year at summit level and will have responsibilities in "particular areas". Each side will "consult, co-operate and take decisions" on matters of mutual interest "within the mandate of and accountable to" a new Ulster assembly and the Irish parliament. The document envisages that all decisions will be "by agreement between the two sides, north and south."
- The accord between the two governments will create new bodies to implement the policy agreed by the north-south council "in meaningful areas and at all Ireland levels".
- The existing intergovernmental machinery would remain in areas not devolved to the new bodies.

The document released yesterday was accompanied by a joint statement in which the two governments make clear this is a "basis for discussion". It says the document, "while in the name of the two governments, derive in a very real sense from the views of all the parties".

The two governments say they have no problem in "clarifying matters" – referring to articles two and three of the Irish constitution and the UK Government of Ireland Act of 1920 which lays claim to Northern Ireland.

Reuters

Back at the talks: Ulster Democratic party chiefs John White (left) and Gary McMichael

Power purchase crosses border

By John Murray Brown in Belfast

The Irish Republic's state-owned power utility is to take a stake in a Northern Ireland power company, in the first cross-border link in the utilities sector. The Electricity Supply Board has agreed to take a 15 per cent share in the Coolkeeragh power station, subject to shareholders' approval. This is the first move by a state owned company in the republic to acquire assets in Northern Ireland.

Coolkeeragh was taken over in a management buy-out at privatisation in 1992, with the management holding 60 per cent and three investors – the Prudential insurance conglomerate, the 3i venture capital group and Ulster Investment Bank – together holding 40 per cent. The link with ESB comes as part of a refinancing to allow the original investors to sell their shares in the company.

Richard Sterling, managing director of Coolkeeragh, said: "Being with a large industrial partner rather than a venture capitalist will also help us argue the case for a new gas-fired power station."

- A protest by the brother of a Northern Ireland murder victim yesterday interrupted the opening of a fresh murder appeal by British paratrooper Lee Clegg. Clegg was jailed for life for murdering 18-year-old Karen Reilly, a passenger in a stolen car that crashed through a Belfast road block in 1990. He lost two appeals but was released after serving just over two years.

Clegg is appealing against his conviction. He claims he did not shoot any of the 19 bullets fired. Roger Dillon, whose brother Seamus was shot dead last month by the outlawed anti-republican group the Loyalist Volunteer Force, outside a hotel, said: "Clegg should be locked away and never be released."

UK NEWS DIGEST

Gloom returns to businesses

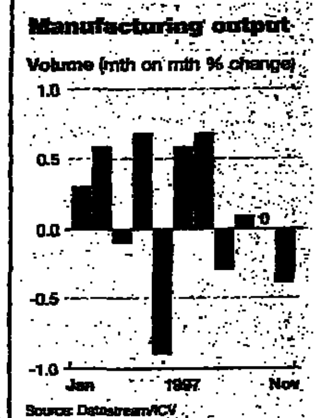
Financial services companies have become pessimistic in their business outlook for the first time in two years, according to the quarterly confidence survey from the Confederation of British Industry, the biggest employers' lobby. Banks were among the most gloomy sectors, reflecting a belief that their business could not continue to grow and that their industry's current health was too good to continue. But building societies and life assurance companies were much more confident, with many expecting to increase employment over the next three months. Of the 230 companies surveyed by the CBI and Coopers & Lybrand, 25 per cent said they were less optimistic about the overall business situation in their sector than they were three months earlier, compared with 16 per cent which said they were more optimistic.

That negative balance of 9 points compared with a zero balance three months ago and a positive balance of 61 points a year earlier. Sudhir Junankar, CBI associate director of economic analysis, said: "Expectations are the least positive since mid 1995.

George Graham

■ THE ECONOMY

Retail sales increase 4.8%



The British Retail Consortium reports today that the value of retail sales in December was 4.8 per cent up on a year before, well above the 2.7 per cent growth recorded in the previous three months. Retailers reported a month of two halves, with November's subdued trading conditions continuing well into December. Spending finally surged in the four days before Christmas as shoppers left gift purchases until the last minute.

Meanwhile, official figures showed an unexpectedly sharp drop in November's factory output, illustrating the impact of sterling's strength on export demand. Factory output fell by a seasonally adjusted 0.4 per cent in November, according to the Office for National Statistics. The underlying trend shows growth of only 0.5 per cent a year, half the figure estimated last month.

Robert Chote

■ COMMERCIAL VEHICLES

Union urges aid for van venture

The Transport and General Workers' Union yesterday called on the government to approve aid required to underpin a joint venture by Daewoo, the South Korean vehicles group, and LDV, the UK vanmaker, for a new generation of commercial vehicles. An advisory board in the government's trade and industry department will meet on Thursday to give its views on the company's request for about £40m ($65.2m) in state aid.

The deal, which involves about £250m of new investment at LDV's plant, is believed to be contingent on aid to triple output and double employment in an initial phase.

Haig Simonian

TECHNOLOGY

Green light for LEDs signalled

Solid state traffic lights may develop a market worldwide, writes Carol Kiely

When you are desperately trying to be on time for that all-important business lunch, getting across town can be a nightmare - every set of traffic lights goes red the moment you reach it.

In the few seconds it takes to change to green, have you ever pondered how much it costs to run and maintain these traffic signals? After all, they operate continuously and must be bright enough to be seen on a sunny day.

Most traffic lights are tungsten halogen lamps and have to be replaced every six months. Dogan Ibrahim and Mark Beasley of the Traffic Control Systems Unit in London estimate that the total running cost for traffic lights in the capital alone is £1.45m a year.

The US, Sweden and Japan have already started to replace some traffic signals with units containing light emitting diodes, LEDs. A typical red traffic light uses 50W of electrical power, whereas the same size LED traffic light, consisting of several hundred LEDs grouped together, consumes less than 14W at the same brightness level. Also, the LEDs last nearly 10 years, which significantly reduces maintenance costs.

Dialight, part of the UK's Roxboro specialist electronics group, makes LED products for traffic lights which are already operating in several cities across the US. The company is eagerly awaiting a contract to replace all the red signals in Brooklyn, New York. "I believe very strongly that the solid state traffic light will develop into a worldwide market," says Harry Tee, Roxboro's chief executive.

Before any trials can be carried out in the UK, however, these units have to meet government specifications concerning colour and safety. The Highways Agency says it is putting the final touches to a standard which incorporates these new technologies.

Initial trials will be carried out in the Bristol area. "An experimental site has been proposed at the end of the M32," says John Laite from the Traffic Control User Group, made up of UK city council transport experts.

Light emitting diodes are not a new idea. The first LEDs were demonstrated in the 1960s and they are widely used in flat-panel displays. They consist of two very thin layers of a semiconducting material, such as gallium arsenide, on an insulating support.

For a gallium arsenide device, one of these layers contains a few parts per million of aluminium, the other, indium. These significantly increase the amount of current that can pass through the layer, and also govern the type of charge carrier responsible for the current flow.

The layer containing aluminium is termed a "p-type" semiconductor in which the charge carriers are essentially positively charged "holes", whereas the layer containing the indium contains excess electrons and is called an "n-type" semiconductor. When current is applied, the electrons in one layer combine with holes in the other to produce light whose wavelength is specific to the type of semiconductor used.

Until recently, most commercially available LEDs have been based on aluminium-indium-gallium-arsenide. These emit red light. Orange and yellow can be produced by replacing the arsenic with phosphorus.

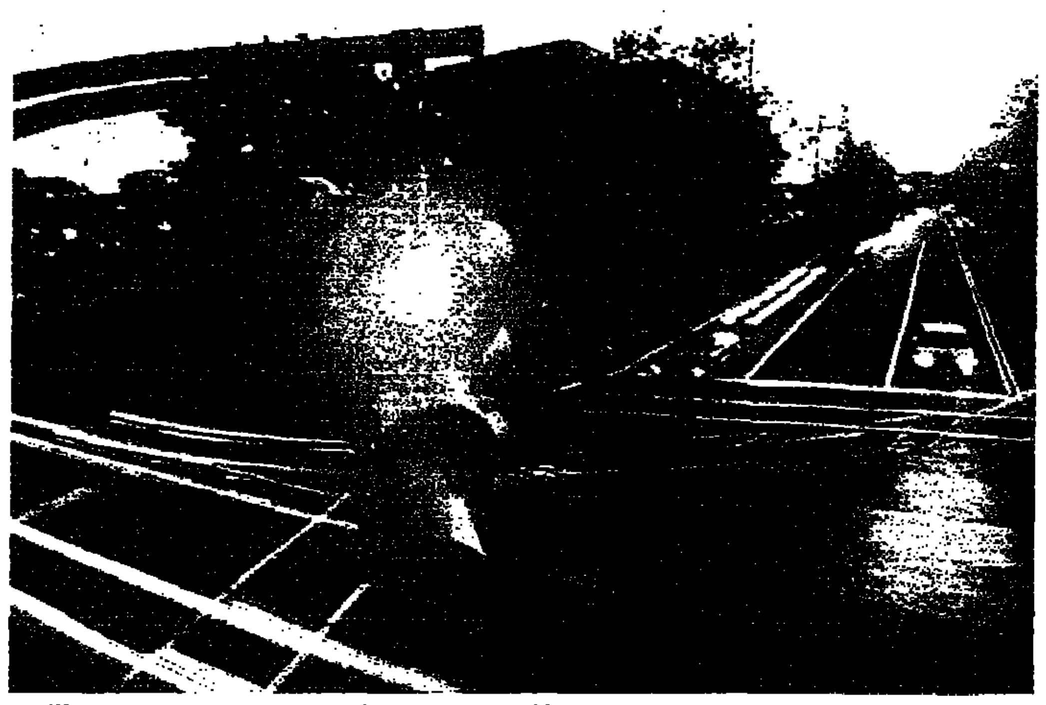
The first blue LED was made in 1971, using gallium nitride as the semiconductor. The inventor, Jacques Pankove, worked at the RCA Laboratories in Princeton, New Jersey. The structure of his LED was slightly different from conventional devices because he found it impossible to make "p-type" gallium nitride. Unfortunately this modified LED was unstable.

In addition, the only suitable support for the device was sapphire, which the head of the laboratory said was too expensive. Pankove abandoned his research in this area three years later.

Since then several companies have tried to make their own blue LEDs. The biggest names in the electronics industry soon dismissed the idea of using gallium nitride, because of the difficulties in making the "p-type" material, and focussed attention on zinc selenide and silicon carbide. In spite of the enormous amount of research effort and funding put into their development, devices made from these materials lack sufficient brightness and their working lifetimes remain too low for commercialisation.

But in 1994 Shuji Nakamura of Japan's Nichia Chemical Industries stunned the world of materials research by demonstrating the first commercially available, bright blue LED made from gallium nitride.

The thin layers of gallium nitride that make up this new LED were grown by metal organic chemical vapour deposition. This is a technique in which two gases - trimethylgallium and ammonia - are passed over a heated sapphire wafer. The high temperature, in excess of 1,000°C, causes these gases to decompose, allowing the gallium and nitrogen to interact chemically and form gallium nitride on the surface of the wafer.



The US, Sweden and Japan are introducing traffic signals with LEDs, such as this Roxboro unit in New Jersey

A common practice during processing was to anneal (toughen by heating) these wafers at high temperature subsequently in an atmosphere of ammonia. Unfortunately, above 500°C ammonia releases atomic hydrogen which fill the holes in "p-type" gallium nitride - significantly reducing its electrical conductivity. Mr Nakamura solved this problem by switching the ammonia for nitrogen during annealing. The ability to grow high-quality "p-type" gallium nitride enabled him to develop a blue LED which was more than 100 times brighter than any previously available.

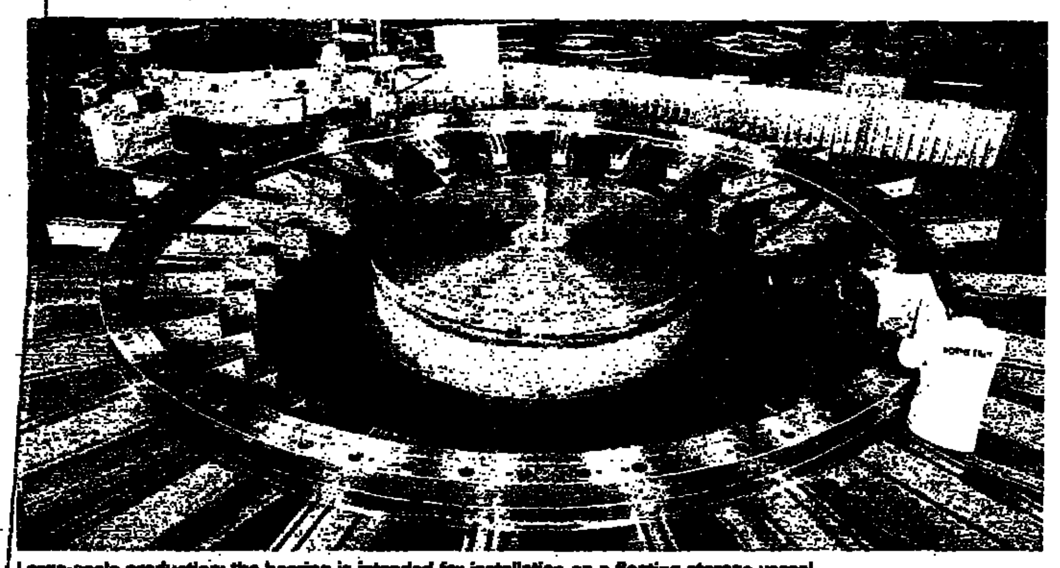
By 1995, Nichia was producing a green LED in which some of the gallium atoms were replaced by indium. This device produced a much deeper green light, 100 times more intense than rival gallium phosphide LEDs. The Japanese city of Fukuoka has 100 green traffic lights incorporating these new LEDs.

The development meant that for the first time designers could make full colour displays blending the three primary colours - red, green and blue - to produce white light. Such displays are now becoming a prominent feature of the Tokyo skyline.

In October last year, Nichia announced it was ready to begin production of a highly efficient white LED lamp for domestic use. It combines a blue LED with a phosphor to produce white light. This is much simpler than trying to balance the output from three separate LEDs. This combination has also been used to produce a flat panel to replace conventional strip lighting.

This could have a serious impact on one of the oldest and most successful industries - the manufacture of the incandescent light bulb - but could yield substantial economic and environmental benefits.

Indeed, Gerhard Fasol, president of Eurotechnology Japan KK, a high-technology business development group, told Science magazine readers that "replacing light bulbs and fluorescent tubes with LEDs is analogous to the replacement of electronic vacuum tubes with transistors".



Large-scale production: the bearing is intended for installation on a floating storage vessel

New bearing on oil production

Hoesch has made the world's largest one-piece antifriction device

As things get bigger, so do their components. The world's largest one-piece antifriction bearing has been produced by Germany's Hoesch Rothe Erde, a division of Krupp Hoesch Industries.

It measures 8m in diameter, weighs 32 tonnes and took the company six months to make, including special tempering in the company's own heat-treatment facilities.

The bearing is intended for installation on a floating production storage offloading (FPSO) vessel. These are becoming more common for oil production as they have the big advantage of mobility over rigs.

"The only problem during manufacturing of this bearing was how to handle these rings due to the size," says Norbert Steinau, the company's sales and export manager. "Although this is the biggest bearing, we have produced a lot of bearings with similar sizes, especially for tunnelling machines and for the offshore industry.

"For non-segmented bearings we are limited to 8m," says Mr Steinau. "If larger diameters are required, we can fall back on the segmented bearing design."

The ship - being built under the management of a consortium comprising SBM and Kvaerner Oil and Gas - is to start operations in early 1999 in the Laminaria oil field, some 550km off the north Australian coast.

It will be anchored there permanently, pumping oil from seven deposits at a depth of around 380m and storing it until transfer to oil tankers. It will have a capacity of 1.4m barrels and will be the world's largest special vessel of its kind.

However, the size of the bearing is not only related to that of the vessel but also to the number of risers, or pipes through which the oil will flow.

The risers and umbilicals are guided by the antifriction bearing, which is sealed off against seawater. This allows the vessel to turn on its own axis without drifting out of position, whatever the weather or tidal conditions.

William Macdonald

BUSINESS AND THE LAW

Pension benefits for part-timers

EUROPEAN COURT

Periods of service completed by part-time workers who have suffered indirect sex discrimination must be taken into account from April 8 1976 for the purposes of calculating additional pension benefits, the European Court of Justice ruled recently.

The Court said European law precluded the application to a claim for recognition of entitlement to join an occupational pension scheme of a national law which limits entitlement to join the scheme to two years prior to the commencement of proceedings.

Two Northern Irish nurses working in the public mental health sector had initially worked on a full-time basis before commencing part-time work. On retirement they were offered a basic retirement pension through a voluntary contracted-out scheme.

However, they did not receive certain additional pension benefits reserved for people over 50 who had worked full time as mental health officers for 20 years and continued to work in that capacity.

Service beyond that period counted as double-time service and gave rise to entitlement to a pension at 55 instead of 60.

In effect, part-timers were deprived of the status of mental health officer and the additional benefits attached to it. The national tribunal ruled that these provisions were found to constitute unjustified sex discrimination against women working part time in the care of the mentally ill.

The tribunal asked the Court from what date the service of the applicants should be counted for the purposes of calculating the additional benefits to which they were entitled.

The issue was complicated by the fact that national law restricted backdating of entitlement to join an occupational scheme to a period of two years prior to commencement of a claim.

The Court noted that although it had previously decided in the 1990 Barber case that the principle of equal treatment applied *to contracted-out* schemes, it had limited its effect to benefits payable after the date of the judgment or to those who had commenced proceedings before that date.

However, such a limitation concerned only the kinds of discrimination which employers and pension schemes could reasonably have considered to be permissible.

There was no such limitation in relation to the right to join an occupational scheme since it had long been clear that sex discrimination was contrary to the principle of equal treatment in European law.

As part-time workers were excluded from access to the special scheme, no limitation in time for the purposes of calculating periods of service was justified.

The applicants were entitled to rely on periods of service as from April 8 1976, the date which the Court first held the principle of equal treatment could be relied on by individuals in their national courts.

In view of its answer to the first question, the Court dealt briefly with the two-year limitation on the backdating of entitlement to join an occupational pension scheme.

Recognition of entitlement to full membership of a scheme through acquisition of mental *health officer status was limited* to a period two years prior to commencement of proceedings.

Since that rule deprived the applicants of additional benefits under the scheme to which they were entitled to be affiliated, any action by the applicants relying on European law rights to obtain these additional benefits would be impossible in practice.

Such a limitation struck at the very essence of the rights conferred by European law. Thus the national rule would have to be set aside.

C-246/96 Magorrian and Cunningham v Eastern Health and Social Services Board, Department of Health and Social Services. ECJ 6CH, December 11 1997.

BRICK COURT CHAMBERS, BRUSSELS

Success by stealth

Years of secret planning enabled the speedy merger of GrandMet and Guinness, says **Robert Rice**

To the outside world, last year's £23bn ($37.49bn) merger between Grand Metropolitan and Guinness was put together in record time.

Formally announced on May 12, just five weeks after George Bull, GrandMet chairman, put *the idea to Tony Greener, Guinness* chairman, over dinner at Dukes Hotel in London, within six months the merged company, called Diageo, had cleared regulatory hurdles in Europe and the US and begun trading on the stock exchange, having overcome opposition from its biggest shareholder, LVMH, along the way.

But the reality was different. Diageo was the product of several years of secret planning and preparation by a team at Guinness led by Ken Mildwaters, group legal director.

In January 1994, Mr Mildwaters, who had been brought in from Theodore Goddard, the City law firm, to manage the restructuring of the Guinness/LVMH alliance, was given five years to come up with a deal to take Guinness' business into the 21st century. He completed the deal in under four years, by building the world's first "virtual" law firm.

"At the end of 1993 the spirits industry was crying out for consolidation and it had also started to slow down. So the question for Guinness was what to do about it. Guinness had 70 per cent of its business in spirits and it was slowing down.

"We decided that if there was going to be consolidation Guinness had to be part of it and preferably it had to lead it. But if we weren't going to drive it and it was going to take place without us, we had to know how to *react. So we created a virtual law* firm to look at it," he says.

"There were two reasons for this approach rather than appointing one law firm. Guinness needed to keep the various bits of work it was doing confidential and if it placed them all with one firm it would have become clear what it was up to. The second reason was that Mr Mildwaters felt that no one firm had all the expertise Guinness needed.

So he indulged in his own game of fantasy law firms, putting together the best team of experts he could from firms which were not conflicted out.

"We had a very strict rule on conflicts – if you had acted for one of our competitors in the last three years, you were out," he says. "That ruled out some very good people."

Mr Mildwaters led a team of seven lawyers. For lead corporate adviser he chose a team from Norton Rose led by David Lewis.

Special brew: Bull's proposal to Greener (left) fitted in with Guinness's long-term plans

As US corporate counsel he chose New York's Dewey Ballantine, led by Morton Pierce. For EU competition counsel he chose SJ Berwin, led by Stephen Kon and supported by barristers Jeremy Leaver QC and Richard Fowler QC. For US competition counsel he chose Ron Rolfe of New York's Cravath Swaine & Moore. French law counsel was Klein Goddard, sister firm to Theodore Goddard. For employment law he chose Peter Cooke at Theodore Goddard. For banking law advice, Lovell White Durrant led by Jon*athan Gay. Worldwide litigation* and arbitration counsel was Dewey Ballantine, led by Monica Burch and supported by barristers Geoffrey Vos QC and Johnny Veeder QC. For employee share schemes he chose Travers Smith Braithwaite and Paisner & Co, and for commercial document review Theodore Goddard, Klein Goddard and Dewey Ballantine.

But Guinness also needed a law firm to manage the project. "We decided if we were going to do a transaction we were going to do it ourselves. There were no lawyers at the table at any stage. We drove it ourselves and didn't let the law firms run it. So we needed a team of lawyers to feed us and act as lead legal advisers."

Unsurprisingly, perhaps, Mr Mildwaters chose Theodore Goddard to play the pivotal role. But he pulled a surprise by choosing two young lawyers, Angela Morgan and Simon Griffiths, who at that stage were not partners.

"The point was they knew what I wanted. They'd worked with me before and so they could go back to the law firms and say 'sorry we don't want it in that form,'" he says. They were supported by Richard Sykes QC, William Stubbs QC and Robin Potts QC.

The project began with an analysis of the industry "from top to bottom". That work was done by SJ Berwin and when it was finished they had collected 16,000 lever arch files of information, which they housed on one complete floor of a City office block. "By the end we could tell you how many bottles of port were sold in Iceland in each outlet, where those outlets were, whose port it was and at what price."

The next step was to build models for every conceivable transaction, from merger, takeover and joint venture to scheme of arrangement. Documentation was put together for each one of these options for each of its main competitors down to number eight by size in the world.

They then set about working out their response if they were not leading the consolidation, and built the documentation to deal with that, "so that if Allied Domecq merged with GrandMet we'd know how we would react".

One of the techniques they used to great effect throughout the project was interloper analysis. This involved asking lawyers to play devil's advocate and put themselves in the role of competitor or regulator. Mr Kon of SJ Berwin originally played the role of the European Commission and was asked to say how the Commission would respond to the various different models.

Herbert Smith was brought in to play the role of interloper. "We asked one firm to look at the way we would deal with an interloper [someone trying to stop a deal] and then brought in Herbert Smith and asked them: 'If this is what we are going to do, what are you going to do to us?'" The same technique was used to analyse the litigation risks of the various models in 30 jurisdictions around the world.

By the beginning of 1997 they were more than ready. The clear preference was for a true merger, but until Mr Bull popped the question to Mr Greener, the virtual law firm had no idea who the bride would be or even if there would be a wedding.

Late on Friday April 18, just as he was about to go on holiday, Mr Mildwaters was summoned to a meeting at Lazards to be told it was GrandMet. Less than four weeks later they were ready to go public and the rest is history.

There were some hurdles to overcome. "The biggest problem was getting all the egos in one place and making them see we wanted it done our way. Inevitably there were some who dropped out, but it never leaked, because no one ever had the full picture. One firm didn't know what another was doing."

The transaction remained secret right to the last. Until the weekend before it was formally announced only a handful of people in Guinness and GrandMet knew what was going on. On Friday May 9, they threw a cocktail party for 120 people at SJ Berwin's offices. When the "guests" arrived they were told they had 48 hours to prepare to tell the world.

Did it pan out just as planned? "There was a lot of concern inside Guinness that we were sitting around while there was this huge deal to be done. We sat there, calm, with all the work done and people kept saying 'why aren't we doing anything? Have we done enough? Shouldn't we be doing more?'" he says.

The reaction from GrandMet's advisers was refreshing. "The difficulty was, how do you explain to the other side you have a building full of documents ready to go? But GrandMet accepted the work we'd done. We said: 'Why not kick off with these drafts?' and they said: 'Great, that'll save us weeks.'"

Mr Mildwaters says European and US regulators behaved much as expected. The only real surprise was the concept of "portfolio power" raised by the European Commission in relation to Greece. "Greece was always going to be a problem as we had significant brand concentration there, but the concept of portfolio power was new to us and we hadn't anticipated it."

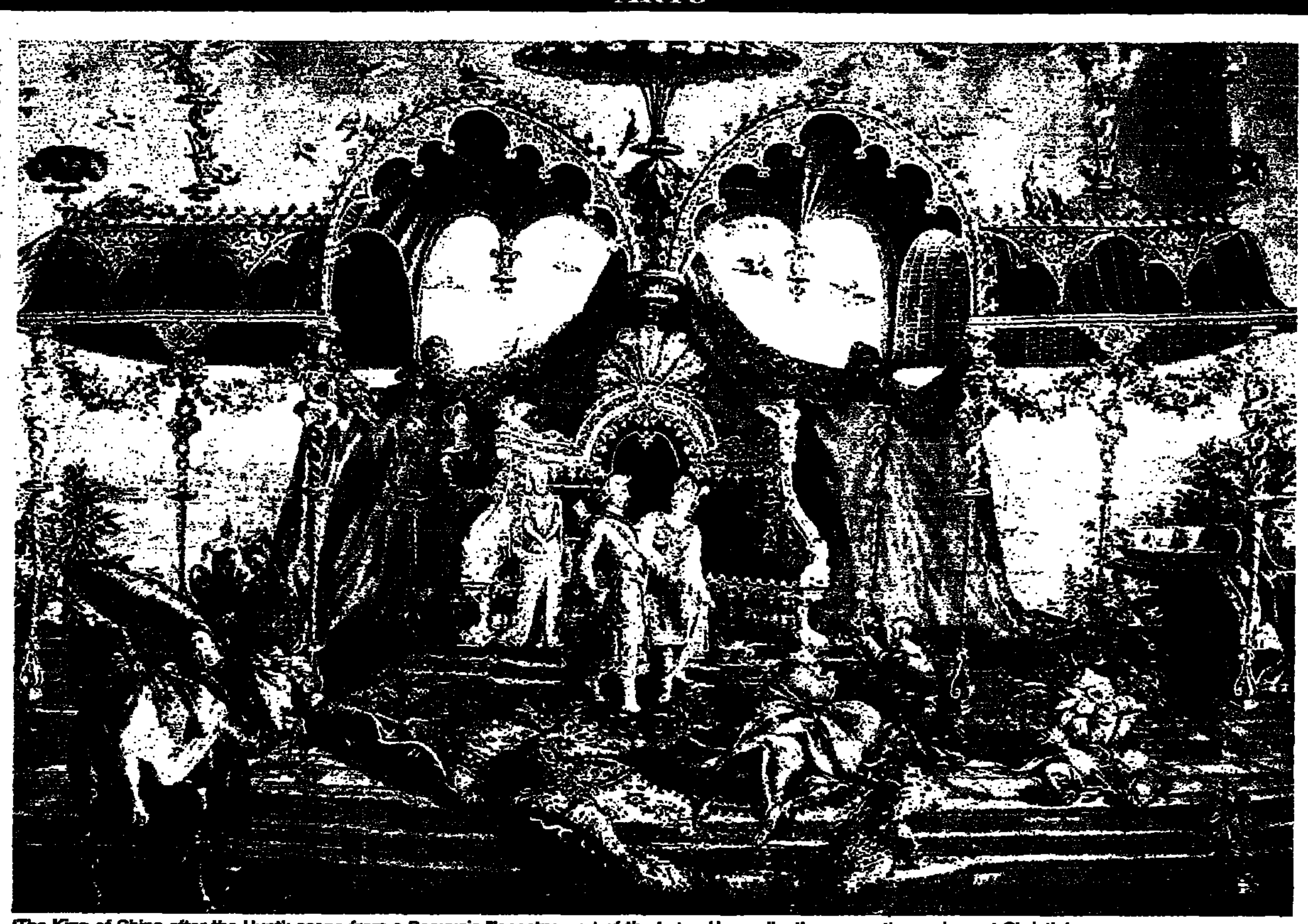
He says they ended up in Europe largely where they expected, except in Ireland where they had not foreseen that they would have to relinquish so much distribution power. In the US, too, the result was much as expected. Losing Dewar's, the premium Scotch whisky, was "within the range of options we'd identified", he says.

"Ron Rolfe [Cravath] had correctly picked it as a candidate [for divestment] back in 1994. But there was another step we would have been prepared to take before the deal collapsed. So we ended up in the US slightly better than our worst analysis. Was it [losing Dewar's] a surprise to GrandMet? I don't know."

Was it an expensive way to do a deal? "Yes and no. It was expensive when nothing was happening, but once the button was pushed it was very cheap. Instead of lots of people scrabbling around doing work which may or may not be required, it's all there. Plus, you've got all the data for the company to use in future.

"The message about the virtual law firm is: think about it. It may not be right for all deals. A lot of law firms found it very hard that they weren't at the table."

ARTS



'The King of China after the Hunt': scene from a Beauvais Tapestry, part of the Luton Hoo collection currently on show at Christie's

Gifts pavilioned in splendour

Susan Moore on three collections which should follow the Courtauld into Somerset House

Canaletto immortalised the panoramic riverscape from the great terrace of Somerset House – views which take in Westminster Abbey to the west and St Paul's and the myriad spires of the city churches to the east. But who in living memory has ever succeeded in promenading in their finery, or even their jeans, across the once fashionable terrace of London's most palatial office building?

Barring the way are the security men from the Inland Revenue, which has its offices here. The grand, open central courtyard, the heart of Sir William Chambers' design, is ignominiously used as a car park. Somehow, even the arrival of the glorious collections of the Courtauld Institute into the north wing on the Strand in 1990, inhabiting the elegant spaces originally created for the Royal Academy of Arts, failed to lift the institutional gloom shrouding the place.

Soon, however, the cars and the gloom – but not all the civil servants – are to be banished for good. In November, the government handed over the lease of the whole building to Somerset House Ltd, a charity established to restore, conserve and find appropriate new uses for the historic buildings (the south wing, in the first instance) and to establish Somerset House as a major public amenity, combining art collections, open-air concerts in the great court and, say, a restaurant and *café* on the terrace. Somerset House will be opened up to become a thoroughfare once more, helping to link Bloomsbury, Covent Garden and theatre-land to the north with the South Bank, probably by way of a footbridge.

The catalyst for the launch of the project was the unexpected gift to the British nation by an 84 year-old English-born American citizen, Arthur Gilbert, of his outstanding collections of English and continental silver, gold boxes, micro-mosaics and *pietra dure*, previously on loan to the Los Angeles County Museum and valued at around £75m – a gift dependent on the government providing a suitable venue for their display.

Lord Rothschild, as chairman of the Heritage Lottery Fund, moved swiftly to secure the collection by way of a £18.5m grant awarded by the fund's trustees for the installation of the collection in the dramatic, Piranesian vaulted chambers beneath the terrace. A further £10m was awarded to the newly assembled Somerset House Trust to part fund the development of the north wing. Little did Gilbert realise that along with his works of art he was also providing the key to unlock the mustiest of palace doors.

Whetting our appetite for what we are to find when the doors on the Gilbert Collection open at the end of 1999 or early 2000, is a choice group of some 40 pieces on show at Christie's as the first stop on a national tour. *Heritage Regained: Silver from the Gilbert Collection* focuses on examples of, predominantly, English silver and silver-gilt which have English provenances, many of which were only allowed to leave the country when it proved impossible to raise the funds to keep them here.

The display is spectacular witness to Gilbert's preference for the flamboyant and the monumental. Many of the exhibits, most notably the magnificent helmet-shaped silver ewer and massive dish with the mark of Paul de Lamerie 1742-43, is best described as sculpture in silver. These bravura pieces are richly ornamented with cast and chased gods and *putti*, shells, scrolls and flowers in elaborate rococo surrounds.

Among the earliest pieces is the refined Elizabethan silver-gilt and rock-crystal cup and cover given by the Duke of Wellington to his god-daughter, and a pleasing double cup made in Nuremberg around 1600 and formerly in the collection of the Earls Spencer. One of the latest, is the substantial silver-gilt monteith, or wine-glass cooler, of 1820-21 supplied to the Duke of York and decorated with vivid Roman battle scenes. In all, the collection, which is particularly strong in English rococo and Regency silver, is as exalted in quality and as encyclopaedic in range as any in the world.

The Christie's show is a celebration of the Gilbert gift. It also serves up an implicit plea for installing two other world-class collections above it in the south wing, after the Lord Chancellor's department moves out in May.

Here, too, is another exceptional *pot pourri* of treasures, drawn from the now homeless Wernher Collection, formed in Victorian London and until recently housed at Luton Hoo.

Amassed by diamond baron Sir Julius Wernher, it is a remarkable – and remarkably intact – collection of Old Master paintings and works of art, embracing medieval ivories and Limoges enamels, Renaissance bronzes, goldsmiths' work and maiolica, and French 18th-century decorative arts. It is hard to imagine a group of objects more complementary to those destined for, and already at, Somerset House, or more appropriate to the scale of these interiors.

The third contender for space is the Courtauld itself. In the north wing there is room to display only 190 out of its 530 paintings, and almost none of its Old Master drawings and works of art. This show focuses on its 18th-century British holdings (the galleries are currently closed until the autumn for the installation of new air-conditioning, a project again part funded by the lottery). The ideal candidates for the south wing, however, are the works of art acquired notably through the bequest of another 19th-century collection, that of Thomas Gambier Parry. This, too, includes Italian primitives, ivories, enamels, maiolica and glass. Lining the walls would be the masterpieces of Impressionist and post-Impressionist art that formed part of the original Courtauld bequest and which sit rather unhappily on the grand 18th-century panelled rooms of the north wing.

It is, in principal, the wish of Somerset House Ltd and the trustees of the Luton Hoo Charitable Foundation (London University, custodians of the Courtauld Galleries, has yet to express a view) to establish the Wernher and Courtauld collections in the south wing of this river-side palace.

What is lacking is the funds to realise the project. A further lottery application will be made but the begging bowl may well be rattled in vain, given that the fund has already given more, in various ways, to Somerset House than to any other project. Could another modern-day Maecenas please step forward?

Somerset House: the Gilbert, Courtauld and Wernher Collections **continues at Christie's, 8 King Street, London SW1, until February 3. The Gilbert Collection travels on to Glasgow, Manchester, York, Birmingham, Leeds and Cardiff.**

Concert

Haitink bonds with the LSO

Bernard Haitink is such an established figure in British musical life that it came as a surprise to discover that Sunday's Barbican concert was his debut with the London Symphony Orchestra. The two reacted like a pair of old romantics on a first date – instant affection and mutual respect, with the promise of deepening friendship. The LSO's management is certainly banking on it: in addition to two further concerts this week (tomorrow and Thursday), Haitink has been booked for a Mozart/Strauss series in June and a tour to Munich and Vienna.

Given the proven qualities on either side, this first programme – pairing Haydn's Symphony No. 86 with Bruckner's Seventh – aroused great expectations, most of which were met. The LSO brought dashing élan to the Haydn, muscle and tonal refinement to the Bruckner. Haitink's conducting was discreet, patient, sincere. In terms of structure and balance, each symphony was flawlessly laid out. There was more than a suspicion, however, that the Haitink/LSO partnership is civilised to a fault. This first date was respectable, not to say highly enjoyable, but it was not an artistic *coup de foudre*.

That may be in the nature of Haitink's Apollonian personality: instead of Dionysian intensity, he offers form and content in perfect proportion – an important quality in two such classical symphonies. But just as it guarantees an absence of vulgarity, it also suggests a reluctance to dig into the guts of the music. That was the impression left by the Haydn, one of his big-boned Paris symphonies. The performance emphasised its Elysian spirit, its pleasing shapeliness – but it was all a mite too benign: there were no middle voices, no shakes or shocks, no burning fire.

The Haydn turned out to be a dry run for Bruckner's Seventh, long recognised as a key work in Haitink's interpretative armoury. Observing his command of tempo and architecture at first hand offered special pleasure, partly because his gestures are so gently purposeful. There was much to admire in the serene singing lines of the first movement, in the tapering of sound in the coda of the second, in the rhythmic consistency of the Scherzo and the glowing restraint of the brass in the finale.

Despite some signs of failing concentration towards the end, the LSO re-stated its claim to be a Bruckner orchestra on a par with its finest continental counterparts. I could not help feeling, however, that it had all been too even-tempered – particularly at the heart of the Adagio, where Haitink's unflinching legato denied the welling tide of strings its monumental impact. Only once did the heavens open, at the blazing climax to the movement – a brief glimpse of the musical paradise to which every performance of this work aspires.

Andrew Clark

Theatre/Ian Shuttleworth

Cold, corrupt and capricious

Suppressed libidos aplenty feature in the year's first batch of shows at Glasgow's Citizens Theatre, be they 17th-century plays, Victorian or lodged in present-day NW3.

No pun is intended in saying that Robert David MacDonald's production of his own play, *The Ice House*, in the theatre's Stalls Studio, never catches light. The building of the title – a pyramidal structure glimpsed from the window of the plush apartment in which the action takes place – at once symbolises the *froideur* in the lives of unsympathetic art historian Bryan (Derwent Watson) and his wife Helier (Andrea Hart with a Dietrich accent), and stands for the strange and exotic which lies outwith their normal bounds.

New secretary Rod (Henry Ian Cusick, his penetrating gaze accentuated by brazenly applied kohl) occupies a status somewhere between those of Orton's *Mr Sloane* and Dennis Potter's devilish Martin: he tempts, humiliates and provokes husband and wife alike, until they coldly show how well they have learned his lessons. Ideas are bandied about concerning the aesthetics of both art and life, but the piece feels more like a dramatic five-finger exercise than a play.

Upstairs, Jon Pope revisits his 1988 adaptation for the late, lamented Shadow Syndicate of Henry James's *The Turn Of The Screw*. The unsaid, shadowy elements of the haunting of young Miles and Flora, and of their governess's response to it, are powerfully conveyed. However, despite alternating Edward Laurie and Lorna McDevitt on stage with a young boy and girl, Pope does not convey enough of the children's innocent charm to bring out the full horrific contrast with their corrupted state. Likewise, Lise Stevenson as the governess handles Victorian repression well, but when it boils over she resorts too often to a half-gasp, half-shriek. Nevertheless, the Syndicate's former trademarks of nagging, intimate disquiet are still present in sufficient force to make this a more than worthwhile hour and a half.

After putting Rupert Everett into a frock at Hammersmith last autumn, Philip Prowse now does the same for David Foxxe in a minor role as a bustling nurse in his production of Vanbrugh's *The Relapse, or Virtue In Danger* (Prowse uses the full title). A co-production with Thelma Holt, and bound after this run for a national tour, the show boasts a generous crop of prominent names: thus, Greg Hicks forsakes marital bliss with Yolanda Vazquez (who is herself wooed by Simon Dutton) for dalliance with Trevyn McDowell, whilst Benedick Bates enlists the aid of Murray Melvin to cheat Jack Klaff out of a wealthy bride.

The tone, as often with Prowse, veers from breathless magnificence to raucous panto; on the one hand, Hicks and McDowell conduct a wonderful courtship of silent glances, whilst on the other, the rural worthies about to be cozened by Bates seem like the Restoration forebears of the rednecks from the movie *Deliverance*, only without the banjo skills. Jack Klaff is the only actor I have ever heard able to forge a coherent delivery out of all those affectedly mutated period vowels, so that the word "Lard!" comes to seem a quite plausible expletive. McDowell peddles a marvellous line in lasciviously sarcastic delivery, and Melvin leaves no doubt as to which side his raddled old matchmaker dresses on, so to speak.

Vanbrugh clearly loses the remotest interest in even making a feeble show of resolving what is supposedly his major plot strand; however, Prowse's directorial boisterousness does its best to disguise the rudderlessness of the final phase, and makes the most of the outrageous possibilities afforded elsewhere in the play.

All shows at the Citizens Theatre, Glasgow, until January 31 (0141 429 0022).

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

EXHIBITIONS
Rijksmuseum
Tel: 31-20-673 2121
Medieval illustrated histories: the Hausbuch and its Master. Drawings, prints and a panel painting by the the Master of the Amsterdam Cabinet, including the 64 sheets of the Hausbuch, which has been taken apart for restoration; ends on Sunday

■ BALTIMORE

EXHIBITIONS
Baltimore Museum of Art
Tel: 1-410-396 6310
A Grand Design: The Art of the Victoria and Albert Museum. First stop of a five-city North American tour of selected objects from the V&A's collection; ends on Sunday

■ BERLIN

CONCERTS
Philharmonie
Tel: 49-30-2548 8354
Berlin Philharmonic Orchestra: conducted by Nikolaus Harnoncourt in works by Beethoven; Jan 16, 17, 18

DANCE
Deutsche Oper
Tel: 49-30-34384-01
Deutsche Oper Ballet: Rosalinde, choreographed by Ronald Hynd to music by J. Strauss; Jan 15

■ CHICAGO

OPERA
Lyric Opera of Chicago
Tel: 1-312-332 2244
www.lyricopera.org
Amistad: Anthony Davis's new work about the 19th century anti-slavery campaign. Dennis Russell Davies conducts a production by George C. Woolfe; Jan 15

■ LONDON

CONCERTS
Queen Elizabeth Hall
Tel: 44-171-928 8800
London Sinfonietta: Elliott Carter at 90. Oliver Knussen conducts a programme of works by Carter, including the UK premiere of his Clarinet Concerto, with soloist Michael Collins; Jan 19

DANCE
Royal Festival Hall
Tel: 44-171-928 8800
The Royal Ballet: Cinderella; Jan 13, 14, 15, 16, 17

EXHIBITIONS
National Gallery
Tel: 44-171-839 3321
Recognising Van Eyck: bringing together several rare works by the 15th century Netherlandish master alongside other works; *from Jan 14 to Mar 15*

Tate Gallery
Tel: 44-171-887 8000
The Turner Prize 1997: display of works by each of the nominees on this year's all-woman shortlist; ends on Sunday

Victoria and Albert Museum
Tel: 44-171-938 8500
Carl and Karin Larsson: Creators of the Swedish Style. Recreates five rooms of the famous house at Sundborn, and examines its extraordinary impact on the interior design of our century; ends on Sunday

OPERA
Shaftesbury Theatre
Tel: 44-171-379 5399
The Royal Opera: Le nozze di Figaro, by Mozart. Conducted by Charles Mackerras, with designs by Peter Pabst; Jan 19

■ LOS ANGELES

OPERA
L.A. Opera, Dorothy Chandler Pavilion
Tel: 1-213-972 8001
www.laopera.org
Salome: by R. Strauss. Revival of Sir Peter Hall's celebrated production. Conducted by Richard Hickox, with Hildegard Behrens in the title role; Jan 15, 18

■ MADRID

EXHIBITIONS
Fundació "la Caixa"
Tel: 34-1-435 4833
1898, Fin de Siècle Spain: Daily Life. Historical exhibition designed to reconstruct a picture of life in Spain at the end of the last century; from Jan 13 to Mar 29

■ MILAN

OPERA
Teatro alla Scala
Tel: 39-2-88791
Il Cappello di Paglia di Firenze: by Rota. Conducted by Bruno Campanella in a staging by Pier Luigi Pizzi; Jan 15, 16, 17

■ MUNICH

EXHIBITIONS
Haus der Kunst
● Ellsworth Kelly: retrospective of the American abstract painter and sculptor, b. 1923, now in his 70s and one of the most distinguished living artists; ends on Sunday
● Julião Sarmento: display of recent works by the Portuguese painter; ends on Sunday

■ NEW YORK

DANCE
New York City Ballet, New York State Theater
Tel: 1-212-870 5570
Jewels: by Balanchine, to music by Fauré, Stravinsky and Tchaikovsky; Jan 14, 17

EXHIBITIONS
Whitney Museum of American Art
Tel: 1-212-3272801
● The Warhol Look/Glamour Style Fashion: major retrospective of around 500 works of art, following Warhol's career from the 1940s to the 1980s, and also including works by his contemporaries; ends on Sunday
● Fashion and Film: running concurrently with the Warhol show, this film and video series traces the relationship between the two industries, from early fashion newsreels and the studio designers of the 1930s to the present; ends on Sunday

OPERA
Metropolitan Opera, Lincoln Center
Tel: 1-212-362 6000
www.metopera.org
● Capriccio: by R. Strauss. New production by John Cox, with sets by Mauro Pagano; Jan 16
● La Cenerentola: by Rossini. New production conducted by James Levine in a staging by Cesare Lievi, with designs by Maurizio Balò; Jan 15
● The Rake's Progress: by Stravinsky. New production by Jonathan Miller, conducted by James Levine. Cast includes Dawn Upshaw and Samuel Ramey; Jan 13, 17

■ PARIS

CONCERTS
Théâtre des Champs Elysées
Tel: 33-1-4952 5050
Vienna Philharmonic Orchestra: conducted by Lorin Maazel in works by Schubert, Maazel and Ravel. With flute soloist Wolfgang Schulz; Jan 14

EXHIBITIONS
Musée Carnavalet
Tel: 33-1-4272 2112
Paris and the Parisians in the time of Louis IV: more than 300 engravings, which together create a vivid impression of 17th century Paris; ends on Sunday

Musée du Louvre
Tel: 33-1-4020 5151
www.louvre.fr
Pajou, sculpteur du Roi: first retrospective devoted to works by the French sculptor (1730-1809), successful in the French Royal Academy of Painting and Sculpture and a favourite of Louis XV and Louis XVI; to Jan 19

■ SAN FRANCISCO

OPERA
San Francisco Opera, War Memorial Opera House
Tel: 1-415-864 3330
www.sfopera.com
● Le Nozze de Figaro: by Mozart. Conducted by Ivor Bolton in a staging by Graziella Sciutti; Jan 14, 17
● Tosca: by Puccini. Conducted by Maurizio Barbacini in a staging by Lotfi Mansouri. Georgina Lukacs sings the title role; Jan 13, 16, 18

■ VIENNA

EXHIBITIONS
Jüdisches Museum
Tel: 43-1-535 0431
www.jmw.at
Max Liebermann: selection of paintings by the German Impressionist dating from the period 1900-1918, during which *the Jewish haute bourgeoisie* flourished. The display also includes French paintings collected by Liebermann; ends on Sunday

■ ZURICH

EXHIBITIONS
Kunsthaus Zurich
Tel: 41-1-251 6765
Arnold Böcklin, Giorgio de Chirico, Max Ernst: Voyage into the Unknown, comprising 130 paintings, collages and sketches; ends on Sunday

■ TV AND RADIO

● WORLD SERVICE
BBC World Service radio for Europe can be received in *western Europe on medium wave* 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

● CNN International
Monday to Friday, GMT:

06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*

● Business/Market Reports:
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Mark Gay of FTTV reports live from LIFFE as the London market opens.

COMMENT & ANALYSIS

Martin Wolf

A radical route to work

To put everyone to work and break the dependence on welfare, the UK government should consider the introduction of wage subsidies

Gordon Brown believes in the virtues of honest toil. Work is not just good in itself: it is also the means to alleviate the plight of the socially excluded – or so the UK chancellor hopes. But how far is it possible to solve the country's most intractable social problems by putting everyone to work? The answer is that such an achievement would be a big help – but only if the government is prepared to think more radically than it has done so far about changes in the labour market and the disincentives to work that the tax and benefits system imposes.

To understand why, begin with New Labour's own starting point: that able-bodied (and able-minded) adults should maintain themselves by their own efforts rather than by a compulsory levy on the toil of others (that is, through taxes). Many will share this view. The trouble is that however right the principle may be, in fact income from employment no longer provides an independent livelihood for all adults. This is because of basic, linked changes in work, welfare and the family.

Even though the UK's ratio of employment to the working age population, at 70 per cent, is higher than in the European Union as a whole (only 60 per cent), many people of working age are still unable to support themselves. One explanation is that unemployment is almost twice as high as it was 20 years ago, when the economy was at a similar stage of the economic cycle. As the UK Treasury noted in an illuminating paper last November, this rise in unemployment "is largely explained by increases in the duration of unemployment, rather than the numbers who become unemployed".*

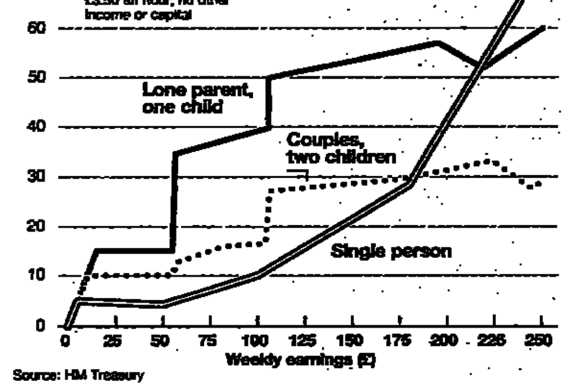
In addition to persistently high unemployment – by postwar UK standards – there have been large increases in the variation among wages: between 1977 and 1996 the top 10 per cent of male and female earners enjoyed an 80 per cent increase in real earnings; over the same period, the lowest decile of men earned only 10 per cent more, though for women the rise was 35 per cent.

Declining employment and earnings opportunities for unskilled men are the most important economic causes of the next problem facing the chancellor in his aim of getting everyone into work: the shift towards lone-parenthood. More than a fifth of all families with dependent children are now headed by a single parent. But lone parents can be economically self-sufficient only if they earn enough to pay the market wage for childcare or obtain adequate funds from the absent parents. Only 40 per cent of lone parents work. Facing a dearth of good potential partners, most end up married to the state.

Unhappily, the benefit system entices more than just lone parents into idleness or, at best, fitful employment. In 1993, 20 per cent of British households had nobody working. That was a higher proportion than in France, Germany and the Netherlands, let alone the US; in 1995, a third of British children lived in families without a full-time employee. Although half the rise in workless households since 1988 has been due to the rise in single-person households, another part of the explanation is that the increase in female employment occurred disproportionately in households which already contain working members.

This strangely unequal distribution of work is explained by a system of benefits that rewards households, rather than individuals, and imposes high withdrawal rates when a member starts earning. The system not only discourages many from working; it also discourages them from earning more. An indication of the impact on incentives is given in the chart. People are better off if they work, but both lone parents and couples with children confront long stretches in which additional effort brings virtually no reward.

Does work pay?



The bottom line is that the interaction between changes in the labour market and the structure of benefits traps many British adults in a life of unemployment, fitful employment, low skill and petty cheating of the welfare system, with harmful consequences for them, their children and society. The question is what to do. The answer – much more easily said than done – is to raise incentives to work.

Three things need to be done to achieve this: improve the functioning of the overall economy to ensure that it operates at the fullest possible capacity before generating inflation; raise skill levels, particularly at the lower end of the skills distribution; and shift expenditure on welfare from supporting idleness to promoting employment.

Against this standard, Mr Brown and his colleagues have not been doing too badly. Macroeconomic management is sound. It was a mistake to join the social chapter of the European Union, though with luck this will not be too serious; the minimum wage may prove a worse error, depending on how it works. As for the New Deal for young people, it looks misdirected. Intended to provide jobs for 250,000, the number of available candidates is only about 120,000. The young are, in any case, not the heart of the problem.

The challenge lies with the reform of the tax and benefit systems, on which a report is shortly to be produced by Martin Taylor, chief executive of Barclays. The chancellor has put forward the idea of a working family tax credit in his pre-Budget report. Yet the most direct assault is always the best. If the problem is low wages and inadequate incentives to work, the solution must be wage subsidies.

Edmund Phelps of Columbia University, the distinguished labour economist, has outlined the logic of such a programme in a splendid book last year.** He offers a compelling argument for a tapered subsidy to low-wage employment. In the US, he argues, a subsidy starting at $3 (£1.80) an hour would cost about $2bn. In the UK a similar programme might cost about $20bn (£12.bn), much of which should substitute for other expenditures.

The big advantages of wage subsidies are: first, by providing support to individuals, the subsidy does not distort decisions on family ties; second, by going to employers it will be easier to police and is certain to be almost universally claimed; third, by raising the return to work, it should maximise the incentive to seek (and offer) employment.

Wage subsidies cannot cure all problems: families will still break down and people will still fall ill. Nor is it possible to impose lower marginal rates of subsidy withdrawal on those at the bottom of the earnings heap without imposing higher marginal taxes on those further up the distribution. But, by raising returns from work, they offer a way out of the biggest dilemma facing countries: the choice between high unemployment and low wages for the unskilled.

Mr Brown, please note: wage subsidies are an idea whose time has come.

**The Modernisation of Britain's Tax and Benefit System: Number One – Employment Opportunity in a Changing Labour Market (HM Treasury, November 1997)*

***Edmund S. Phelps, Rewarding Work: How to Restore Participation and Self-Support to Free Enterprise (Cambridge, Mass. and London: Harvard University Press, 1997)*

Martin.Wolf@FT.com

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'), e-mail: letters.editor@ft.com

Published letters are also available on the FT web site, http://www.FT.com

Translation may be available for letters written in the main international languages.

Risks in manufacturing bearing brunt of anti-inflation medicine

From Mr W.M. Robson.

Sir, Your report "Quick, quick, slow" (January 6) contrasted the booming UK services sector with a manufacturing sector increasingly damaged by the effects of an overvalued pound. It clearly illustrated the dilemma faced by the UK government and the Bank of England's monetary policy committee.

Although there are signs that the potential scale of this damage is more widely recognised, UK economic policy still continues largely to be dictated by the crucially important, albeit longer term goal of "no return to boom and bust", but by using the blunt instrument of successive rises in interest rates. What is lacking is an additional policy dimension which addresses the growing risks of a "hard landing" and deterioration in UK unemployment trends later this year. One policy option would be to tighten fiscal policy, thereby allowing some progressive relaxation of interest rates.

It is not the inflation-prone services sector but the UK's hard-pressed manufacturing sector, the UK steel industry's domestic customer base, that is bearing the brunt of the anti-inflation medicine (high interest rates and the resulting strong pound); yet this sector is itself exhibiting few signs of inflationary pressures.

As 1998 progresses, and over the next couple of years, economic policy makers will surely come to regret that greater heed was not paid in time to the concerns of UK manufacturing. It does, after all, employ more than 4m people – with a further 4m indirectly dependent on it (many of whom work in the services sector) – and is responsible for nearly 65 per cent of Britain's exports.

It would indeed be ironic if one of the government's flagship policies to reduce youth unemployment, "The New Deal", began to get the young unemployed into work just as a large and growing number of the current workforce find their jobs disappearing.

The members of the UK Steel Association – and their UK customers – look to the UK's economic policy advisers to address the mounting concerns arising from the overvalued pound against the ERM currencies, particularly the D-Mark, speedily and before irrevocable decisions are made affecting investment, capacity utilisation and jobs during 1998.

The recent warning words of Mr Jack Smith, chairman of General Motors, should also be ringing ominously in the government's ears; he said: "The strength of sterling has now turned the UK into a high cost economy for inward investments."

W.M. Robson,
president,
UK Steel Association,
5 Cromwell Road,
London SW7 2HX, UK

The sinister cloak of anonymity

From Mr Martin Taylor.

Sir, May I protest against an increasing tendency in your columns for institutional investors, already a comparatively cosseted class, to criticise company managements whilst remaining anonymous?

Your piece, "Granada attacked over 'grubby move' ", (January 7), where that familiar figure, "a leading investor who would not be named", sounds off at length, is just one example among many. Criticism is fine, and so is anonymity, but to mix them in this way is discourteous, cowardly and faintly sinister. Which is why, despite being as bashful as any leading investor, I am happy to sign myself.

Martin Taylor,
chief executive,
Barclays,
54 Lombard Street,
London EC3P 3AH, UK

Chocolate bar brands – the great survivors

From Sir Dominic Cadbury.

Sir, In view of the nightmares facing global brand bosses described by Lord Saatchi ("Battle for survival favours the simplest", January 5) and the end of the dominance of chocolate bars as "hunger satisfaction" perhaps by a "great chocolate scare" predicted by Samantha Zaft (Letters, January 9), may I suggest that the outlook for confectionery brands may not be quite so cataclysmic?

Many have very long histories – Dairy Milk 93 years and Bournville 90 years. That they have survived "emotional revolutions" and that UK confectionery sales grew a further 3 per cent in 1997 is due to their delicious and nourishing qualities, as well as keeping their consumer appeal contemporary.

Dominic Cadbury,
chairman,
Cadbury Schweppes,
25 Berkeley Square,
London W1X 6HT, UK

Personal View · Yonghao Pu

Shelter from the storm

China should not have to devalue in response to currency turmoil in the rest of Asia

With Asian currencies tumbling all around, China is virtually the only country in the region not to have devalued. But will Beijing be able to maintain the value of the yuan? And even if it can, what will be the long-term impact of Asia's crisis on the Chinese economy?

It has become commonplace to blame Asia's currency turmoil on China's devaluation in 1994. The argument is straightforward: Chinese exporters have been able to undercut rival manufacturers in south-east Asia, weakening the economies of its rivals and rendering their exchange rate uncompetitive. It is true that China made a strong comeback in its export performance last year: in 1997 exports grew by an estimated 20 per cent, compared with growth of only 1 per cent in the previous year.

Similarly, it is now argued that the series of dramatic devaluations in the rest of Asia will automatically erode the price competitiveness of Chinese exports. If China's external sector is not to suffer, and if its growth rate is to be maintained, the argument goes, China will have no option but to devalue as well.

The facts suggest a rather more complex picture. It is true that in 1994, China devalued its currency from Yn5.7 to the dollar to Yn8.7, a depreciation of 52 per cent. This was done at time when most south-east Asian currencies were pegged to the dollar.

But the impact of the devaluation has been exaggerated in two ways. First, China's cumulative inflation outstripped that of the US by about 40 per cent over the period 1994-96, which means the real exchange rate was appreciating while the nominal one remain fixed.

In addition, the managed nominal exchange rate has also gradually appreciated to its current level of Yn8.3. Thus, by the end of 1996, the yuan's real devaluation against the dollar stood at only 6 per cent. In other words, China's leap in exports has not been the result of its supposed devaluation, but rather reflects an export push by Beijing.

Second, China had a two-tier exchange rate before 1994. While the official rate was sharply reduced against dollar, the rate at which most of its external trade was conducted remained more or less unchanged.

But if the effect of China's 1994 devaluation has been overplayed, what will be the impact on China's competitiveness of recent Asian devaluations? In the longer term, this will certainly translate into higher exports from China's neighbours, a fact that will undoubtedly somewhat damage China's foreign trade position, either directly or indirectly. But, for several reasons, I do not believe China's exports will be badly dented.

First, the direct impact of the current crisis is limited. Chinese exports destined to Thailand, Malaysia, Indonesia, and the Philippines together accounted for only 4 per cent of China's total exports in 1997, with a further 5 per cent going to South Korea. (Admittedly much of the competition between Chinese and south-east Asian exporters takes place in third markets, whether in Europe, the US or elsewhere.)

Second, many south-east Asian exporters rely heavily on imported inputs. The higher cost of these parts will be felt quicker than any subsequent rise in exports.

China's currency will be supported by strong capital inflows, a persistent trade surplus, and impressive productivity growth

Exporters will also face a cash flow problem as a result of the surging cost of servicing their US dollar-denominated debts.

This situation has been made worse for China's rivals by the recent downgrades – by Moody's and Standard & Poor's – of the foreign currency debt of South Korea, Thailand, Indonesia and Malaysia. Rising import prices will also stoke up domestic inflation, further reducing any competitiveness gained from devaluation.

Third, some export products, such as textiles, are less price-sensitive since they are subject to import quotas. A substantial change in market share is thus unlikely.

Fourth, China's export industry, dominated by labour-intensive products, has a different market structure from most of its rivals. Machinery, electrical goods and transport equipment – the higher value-added goods – made up a mere fifth of China's exports in 1996. Most south-east Asian countries are on a higher rung of the technological ladder.

Fifth, and most important, it has been estimated that south-east Asian pre-crisis labour costs in the manufacturing sector, measured in US dollars, were two and a half times higher than those in China. Although the gap has shrunk since the round of devaluations, China's labour costs are still about a fifth lower.

If we use The Economist's Big Mac Index as an alternative guide to costs, China is still the most competitive country in the region, except for Malaysia. What is more, China is about to embark on a sweeping reform of its state-owned enterprises.

This will lead to a gradual rise in urban unemployment, further depressing labour costs and maintaining the country's competitive edge.

Even if there is some loss of international competitiveness, China's huge internal market makes it easier for the country to absorb external shocks than neighbours such as Thailand can. Using preliminary data for 1997 to calculate the ratio of exports against gross domestic product – a measure of the economy's openness – China's ratio comes out at 20 per cent (only 12 per cent if GDP is rebased by purchasing power parity). Taking imports into account, net exports contributed only 4.4 per cent of the unadjusted GDP in 1997.

If a Chinese company's exports fall, it can always turn to the the country's 1.2bn consumers for solace. The government's main task, rather than worrying too much about a "competitive" exchange rate, is to continue reforming the banking sector and ensure that substantial domestic savings are allocated to deserving companies.

China's currency will remain solid. It will be supported by continuing strong capital inflows, a persistent trade surplus, and impressive productivity growth. It will also be helped by rising real interest rates – annual *retail price inflation* is expected to drop to 1 per cent last year from 22 per cent in 1994, while interest rates fell only 2.4 per cent.

All of this is not to say that China will find it plain sailing in 1998. In particular, it will face two related difficulties: rising unemployment and weak domestic demand. Slack consumption has led to price competition and ever-falling profits for some industries.

But even here China can turn its problems to advantage: a larger pool of cheap, well-trained workers, tamed inflation and a stable exchange rate should add to the attraction for foreign investors of a country that is successfully managing political transition after the death of Deng Xiaoping.

China should grab this chance to rationalise its industries, reduce over-capacity and upgrade the value-added element of its export industries. Export growth may indeed slow down in coming years as a result of the strong currency, but at worst they will grow at half the 20 per cent of last year. That is not such a bad performance. It is certainly no cause for alarm.

The author is a London-based senior economist at Bank of China International, the investment banking arm of Bank of China

FINANCIAL TIMES
Number One Southwark Bridge, London SE1 9HL
Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700
Tuesday January 13 1998

How to make Emu work

A year ago pessimists argued plausibly that European economic and monetary union could not be launched on January 1 1999 with Italy, Spain and Portugal on board.

Since then formidable efforts have been made to reduce budget deficits. Inflation has fallen to an annual rate of only 1.3 per cent in Italy, and 2.5 per cent in France and Germany. Interest rates have converged to within a hair's breadth and financial markets appear to regard Emu as a done deal. Despite the turmoil in Asia, European economic growth is forecast to be 3 to 3¼ per cent this year, giving a fair wind for the project.

Yet, despite such optimism serious difficulties remain. Three and a half months before EU leaders decide which countries should be admitted to Emu, there are many doubts as to how it will work in practice, some of fundamental importance.

These issues will be explored in a series of leading articles in the coming weeks. First, there is the difficult question of how fiscal policy will be conducted under Emu and the conditions under which it could be used to stabilise member countries' economies. Second, will Europe's inflexible labour and product markets create dangerous centralising tendencies? Third, it remains to be seen whether the European Central Bank can be truly independent and at the same time sufficiently accountable to member governments. It will need to be much more open than the German Bundesbank.

Before tackling these issues, EU leaders must agree on May 1 who is in and who is out. On the strictest interpretation of the entry criteria in the Maastricht Treaty of 1992, Italy would not qualify. Its debt to GDP ratio, though falling, is 120 per cent of gross domestic product, twice the maximum laid down by the treaty. But Belgium's ratio is even higher and that country is sure to be allowed in.

It is likely, therefore, that Italy will be swept into Emu on the political tide along with all the other 10 candidates. Even so, its high debt level could be a major source of instability within Emu, unless it can adapt to a fiscal discipline which, until recently, has seemed beyond its reach.

Italy's is only an extreme case of the difficulty faced by most Emu members. Since they will not be able to print money to stimulate growth, nor use inflation to erode the resulting debts, they must aim to run a balanced budget over a complete economic cycle. Only then will they achieve the flexibility to run deficits in periods of recession. To get to this position, most countries face a long hard road of fiscal tightening.

These may not be the ideal conditions for Europe to resist its tendency to harmonise anything that moves – from labour laws to taxation policy. But it must do so. The central directives too often protect the weakest by compelling all to accept the practices of the least competitive.

One of the main benefits of the single currency should be to make prices transparent and so expose uncompetitive practices to the rigour of the market. This, combined with fiscal discipline and an open monetary regime, is the way to get Europe's 19m unemployed back to work. It is worth striving for.

Balkan contrast

When all-out war began in the former Yugoslavia in 1991, the first main battleground was not Bosnia but eastern Slavonia. The destruction of Vukovar by the Yugoslav National Army shocked the world when Sarajevo was still thought of as a place where something happened in 1914.

In 1995, to escape the fate of fellow-Serbs expelled from Krajina, Serb leaders in eastern Slavonia accepted a US-brokered agreement allowing two years of UN administration before Croatia gained full control. This week the two years are up.

Celebration would be premature, but it seems most Serbs in eastern Slavonia are ready at least to give Croatian rule a try, rather than fleeing as their Bosnian kith and kin did from Moslem rule in the suburbs of Sarajevo. Much credit is due to Jacques Paul Klein, the US general who ran the temporary administration. The example of what international authority can achieve if firmly and fairly exercised is potentially encouraging for Bosnia.

Much less cheering are the omens from Kosovo. The break-up of the old Yugoslavia began there in the late 1980s, with Slobodan Milosevic's campaign against the Albanian majority, culminating in the suppression of the province's autonomy. If Kosovo has since been outside the theatre of war, it is largely because the Albanians have kept their heads down, following their leader Ibrahim Rugova's Gandhian strategy of seeking full independence by non-violent means.

Unhappily good behaviour has not been rewarded. Kosovo has been left out of successive Balkan peace plans. Serbia continues to rule it with a rod of iron, largely out of sight of international observers. Not surprisingly Albanians are beginning to lose faith in Mr Rugova. A "Kosovo Liberation Army" has started guerrilla warfare, and over 40 people have been killed in the past year. If this violence is allowed to escalate it may easily spread to neighbouring Macedonia, which has a large Albanian minority. Albania itself could well be drawn in.

In 1992 George Bush threatened Serbia with military force if its actions caused conflict in Kosovo. That threat should now be complemented with strong pressure on both sides to seek a compromise. The last thing the Balkans need in 1998 is more wars of secession and more ethnic cleansing.

Business friends

Has the remarkable turnaround in governments' attitude towards business gone too far?

To many, a pro-business stance of the kind exemplified by Tony Blair's government in Britain is clearly better than one where the bureaucracy ignores how the golden goose lays its eggs. Others will point to the damage now being done in France, as a leftist government undermines the competitiveness of French industry by imposing a 35-hour week.

Against that must be set the lesson now emerging from Japan and the troubled tiger economies of Asia – that pro-business policy has too often been a disguise for cronyism or corruption. And Mr Blair's government has stumbled in a number of areas involving business interests – such as over tobacco advertising concessions for Formula One racing.

Asia's pro-business policies reflected an essentially corporatist relationship. The state encouraged companies to exploit the global trading system while shielding foreigners from a protected home market.

The friendliness to business shown by Labour and by the Clinton administration, by contrast, is based on the recognition that globalisation encourages companies to direct investment and employment to countries that offer a skilled workforce, low taxes and business-friendly labour markets. This is a liberal, not a mercantilist, view.

Yet the dividing line between liberalism and corporatist cronyism is often thin. In a statist system, scandals arise when politicians and civil servants plop into sinecures provided by businesses with which they had had earlier relations. In a more liberal environment the flow is reversed. The scandals stem from potential conflicts of interest among the business people who advise or participate in government.

The US has had most experience of how to involve business in the affairs of government. It has developed congressional vetting arrangements which impose a check on imprudent appointments. Other countries should manage potential conflicts of interest with similar rigour. That means greater transparency and tougher rules over shareholdings and political donations. Above all, politicians should grasp that a pro-competition stance is the best source of job creation – and the best guarantee against business-related scandals.

Grizzly start to the year

Why are stock markets bucking and falling? Philip Coggan and John Authers pick through the explanations

New year, same old story? Back in October, a sharp fall in the Hong Kong stock market triggered a sell-off around the globe, culminating in a record one-day points fall in the Dow Jones Industrial Average.

Yesterday, another bout of worldwide turmoil was sparked as the former colony's largest investment bank, Peregrine Investments, headed for liquidation and the Hang Seng index fell 8.7 per cent. European markets, already nervous after sharp falls on Wall Street on Thursday and Friday, dropped more than 3 per cent in early trading; the Dow opened with another 100 point plus decline, before recovering; Latin American markets began sharply lower, with Venezuela down more than 10 per cent.

Is the collapse of a Hong Kong investment bank really that important? And if the markets are suffering from a more fundamental malaise, does that mean a bear market might now be starting?

Clearly, Peregrine is only a small part of the picture. Even before news of its difficulties came, the markets were grappling with the collapse of confidence in Indonesia, as doubts arose about the future of President Suharto and his government's willingness to comply with the terms of an International Monetary Fund bailout. But the explanation for the market turmoil goes beyond Asia. Recent stockmarket movements suggest the Asian crisis has caused investors to rethink fundamentally the outlook for global inflation and corporate earnings growth.

On the one hand, Asia's problems exert a powerful deflationary force on the world economy. That is good news for investors in bonds, who see the real value of their capital eaten away by inflation. On the other, the fallout from Asia may reduce corporate earnings growth – bad news for equity investors. That has made markets volatile, as the different factors jostle for prominence in investors' minds.

In some ways, the (comparatively little noticed) impact of Asia on the bond markets has been more startling than the widely reported effects on stock markets. "The Asian crisis has allowed bond investors to be confident that inflation in the US and Europe will stay below 2 per cent," says Chris Carter, managing director, global equity strategy at UBS.

Bond yields have accordingly fallen, with the yield on the benchmark 30-year US Treasury issue falling to its lowest level since such bonds started to be regularly issued in 1977. The yield on the long-dated UK gilt dropped below 6 per cent for the first time since 1964.

Falling bond yields are normally good news for equity markets, both because they lower the cost of borrowing for businesses and also because institutional investors see bonds and shares as alternative assets. When the returns from bonds fall, that encourages investors to switch into equities. It is a measure of how worried investors are about Asia and its effects that this is not happening.

It is also possible that the Asian crisis will have some benign effects, on the US and UK economies at least, by reducing some of the inflationary pressures at a time when economic growth is starting to race away. Laurence Meyer, a governor of the Federal Reserve, admitted last week that the US central bank would have already raised interest rates were it not for Asia's turmoil.

But deflationary influences are rather like drinking red wine; one bottle may leave you with a rosy glow, two will cause a splitting headache. The issue was raised in a recent speech by Alan Greenspan, the chairman of the Federal Reserve, who warned of the "virulently negative" effects that deflation could have.

Few people are forecasting outright deflation, in the sense of a fall in consumer prices, in the US or Europe. Nevertheless, the mere talk of deflation may have added to the "flight to safety" into bond markets.

What seems to have fuelled the recent declines in US and European markets, however, is the second main effect of the Asian crisis: the adverse impact on corporate earnings. For the US and UK company sectors in particular, it is as if a driver has applied the brake and accelerator at the same time. When this happens, the engine usually seizes up and the car shudders to a halt.

The slowdown in Asia is expected to have an adverse impact on the exports of western countries, both as demand falters and as the region's businesses, operating in newly devalued currencies, become ultra-competitive.

At the same time, in the domestic economies, tight employment markets (unemployment is at a 24-year low in the US) will lead to rising wage pressures. With international competition intense, businesses will be unable to pass on these costs to customers, and the result will be a narrowing of profit margins.

Continental European stock markets may be protected from the worst of these problems, both because of their potential to restructure and cut costs and because of their high unemployment rates, which should shield them from wage pressures.

But in the US, a series of profit warnings, combined with earnings announcements coming in far below analysts' expectations over the past few weeks, have led to some spectacular declines in share prices. Technology stocks have been particularly affected due to their heavy exports to Asia, with Oracle, the world's second-largest software company, dropping by almost 30 per cent in one day last month.

Strategists are also worried that "bottom-up" forecasts from analysts who cover specific companies and sectors still seem unrealistic. True, forecasts for the fourth quarter of 1997 have been cut substantially, with profits for the S&P 500 companies now expected to rise by only 7.8 per cent year on year, according to Boston-based First Call, one of the main agencies that monitors analysts' forecasts. This represents a big revision downward: three months ago this figure was 13.8 per cent.

But, says Charles Hill, First Call's director of research, though analysts have taken account of the Asian effect in calculating profits for the last quarter of 1997, they have not done the same for their profit forecasts for 1998. The consensus forecast for earnings growth during the whole of this year compared with last is still a remarkably bullish 13.8 per cent. "There's no logical reason for this," says Mr Hill. "Analysts still seem to think we're in the Goldilocks economy."

What will happen to equity markets if these high expectations are dashed? It seems unlikely that the bad news in Asia is over, even though there have been signs of stability in South Korean markets this week.

But it is possible that the western markets could decouple from events in Asia. After all, the falls so far this year have done little more than reverse the rally of late December. And the Dow's 222 point fall on Friday may have looked large in nominal terms, but in percentage terms – 2.85 per cent – the drop was relatively modest. That was a long way short of the 7.2 per cent decline suffered in October or the 22 per cent plunge recorded on "Black Monday" in October 1987.

Traditional valuation methods, based on the relationship with bond yields, are moving in favour of stock markets. "In the summer, developed equity markets looked 15 per cent overvalued," says UBS's Mr Carter. "Now they look 6 per cent cheap."

In the US, equity strategists point out that the current price-earnings multiples are not historically high, at least compared with the present low interest rates and inflation. Abby Cohen, the influential strategist at Goldman Sachs, says estimates of value linked to inflation make equities look more attractive than do estimates of value linked to interest rates.

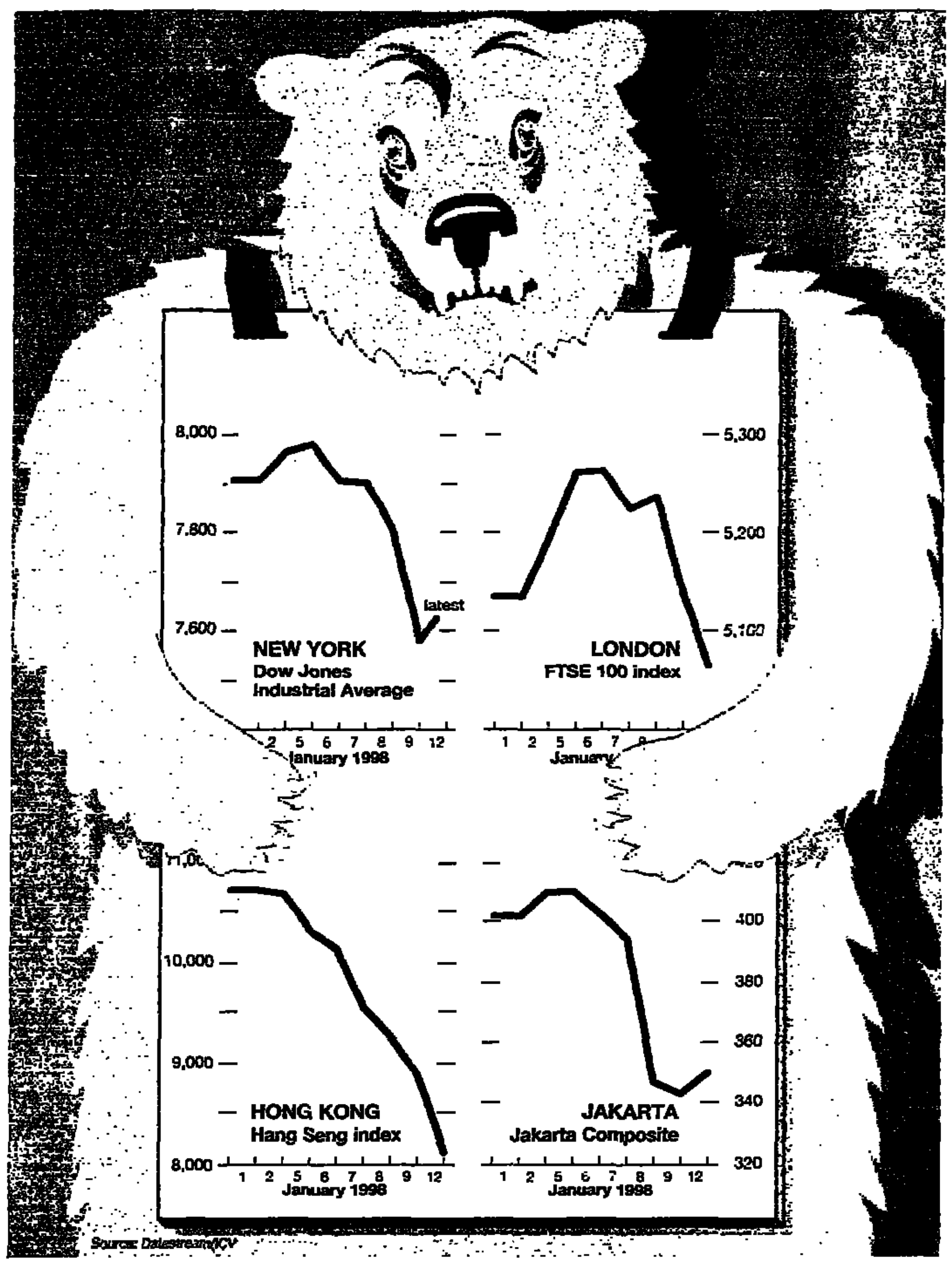
She concedes that stockmarket volatility is likely to increase compared with that seen over the past few years, because US equities had been "notably undervalued" from mid-1994 until early last year. Now, she argues, they are fairly valued and so the "valuation cushion that allowed disappointments to be well tolerated" has been removed.

An added complication in the US is the behaviour of retail investors. The amounts invested in the market through mutual funds and discount brokers have been running at record levels for the past two years. Retail investors' reaction to the Dow's sharp dip on October 27 last year was critical to the market's swift turn-around. Many treated it as a buying opportunity, fuelling a recovery the next day.

There are likely to be strong net inflows from retail investors into markets this month. Many small investors have last year's bonuses to invest, while tax considerations also mean heavy investing in pension products. However, small investors may be switching their attention to bonds. Vanguard, the biggest seller of mutual funds, yesterday reported heavy cash inflows, but said only about half was going into equity funds. Preliminary estimates show that inflows into equity funds rose $10bn last year to $230bn; inflows into bond funds rose to $47bn, up from $12.5bn.

If this trend continued, it could lead to less liquidity for the equity market. But the real issue is whether events in Asia have done enough to destroy the "Goldilocks scenario" of low inflation, low interest rates and steady economic growth.

"In the mid-1990s, low inflation was prompted by supply-side benefits to the economy, that is the improved efficiency of the corporate sector," says Michael Hughes, Barclays group economic adviser. "Now the worry is that low inflation will be caused by reduced demand. The former scenario is positive for both bonds and equities, the latter is only positive for bonds."



· OBSERVER ·

Minister in demand

■ French finance and industry minister Dominique Strauss-Kahn faces something of a dilemma. Paris Socialists want him to be Paris regional president if they win the mid-March regional elections.

Until recently, he could have accepted the new job and stayed on at the Bercy ministerial complex. After all, Alain Juppé managed to be mayor of Bordeaux and prime minister at the same time. But current premier Lionel Jospin takes a dim view of *le cumul des mandats* – having lots of jobs.

Admirers of the way DSK has handled himself in his seven months in the government shouldn't fret too much: friends say that's where he wants to stay.

Meanwhile, Jospin's signal that laws are on the way to limit the number of elected positions anyone can hold has been a convenient smokescreen for some opposition heavyweights to bow out of local politics – though they say they're acting on their own initiative, not under government pressure.

François Léotard, head of the centre-right UDF alliance, has resigned as mayor of the southern town of Fréjus to concentrate on the regional elections, while Philippe Séguin, former head of the National Assembly, has stood down as mayor of the eastern town of Epinal to devote himself to the presidency of the Gaullist RPR.

There are question marks over the *mairie* in both towns. There's a legal investigation into fake prefectorial stamps found in the town hall at Fréjus, and the Socialist opposition at Epinal has called for an official inquiry into the town's finances.

Maybe some top politicians have indeed been spreading themselves too thinly.

Santer's Klaus

■ Chief European Commission spokesman Klaus van der Pas is about to be promoted to one of the toughest jobs in Brussels: heading the taskforce to manage enlargement negotiations with the former communist countries of central and eastern Europe.

The struggle for the top enlargement job has led to months of intrigue, primarily involving François Lamoureux, the brilliant aide to former president Jacques Delors. Lamoureux apparently pulled out all the stops in Paris to secure the post, but couldn't win the support of Hans van den Broek, the Dutch commissioner who has overall responsibility for eastern enlargement. Others raised concerns about too much French influence in Brussels.

Van der Pas has spent three years burnishing the image of Jacques Santer, the affable president of the Commission. He will have his hands full running the enlargement taskforce, which is far more complicated than previous expansions of the EU, but he is well qualified for the task, having been responsible for the Swedish accession negotiations in 1993.

Van der Pas, a native German who grew up in the Netherlands, joined the European Commission almost straight from school more than 25 years ago, and didn't go to university until later: he graduated in Brussels in 1980. His appointment – insiders say it will be announced shortly – will be one in the eye for those who accuse Brussels of being an elitist ivory tower.

Stand-up comic

■ Sometimes you even have to feel sorry for bureaucrats. Yesterday, Tokyo finance ministry officials had to explain why estimates of Japan's potential banking bad loans had apparently tripled – and why none of the published figures added up.

Apparently it's because everybody is using different definitions of a non-performing loan: the bankers have one set of standards, the government another, and the US has a third – which Japan wants to adopt.

Officials then faced another public relations conundrum: explaining the government's planned Y30,000bn financial support package. It's not easy: politicians keep changing their minds about the package and officials privately admit that the Y30,000bn figure was more or less plucked out of thin air in the first place.

In an attempt to be helpful, the ministry has produced a comic-style book, featuring cartoons of sobbing bank buildings and puzzled Japanese housewives asking questions such as "Will more banks go bust?", "Will taxpayers foot the bill?" and "How can we trust the information from the banks?" *How indeed?*

No blushes

■ That old cliché about clouds and silver linings seems to be working for Chob Malidol, a 66-year-old woman in Pichit province, about 450km north of Bangkok. She noticed that the Asian crisis meant that lots of people who wouldn't be seen dead in a pawnshop needed to raise money quickly. So, for a small fee, she takes their jewellery, watches and cooking pots along for them.

The Financial Times

100 years ago

Sombre News From Paraguay
The news from Paraguay is of a sombre cast. There is said to be no wheat. The national flour mill has stopped working, and the bakers, it is feared, will have to close their shops. It also appears that the tobacco is so badly handled in curing and classifying that complaint from consumers is general.

Other Notes From Abroad
It is said that while everybody has been watching wheat, Mr. Leiter has cornered the oat market in Chicago, and has made a good thing by it.

President Calloway, of the Lake Shore Railway, ascribes that falling off in passenger business on that and other lines in the same district to the long-distance telephone.

Jorge Walker Schell, the absconding cashier of the Chilian Conversion Office, has been captured in Argentina. His defalcations are supposed to amount to about $130,000. When captured he had some $7,000 in his possession.

The Railroad Gazette says the locomotive shops, other than railroad shops in the United States, built 1,251 locomotives in 1897 as compared with 1,175 in the previous year.

FINANCIAL TIMES
Tuesday January 13 1998

Blueprint for N Ireland hailed as breakthrough

By John Murray Brown in Belfast and David Wighton in Tokyo

The British and Irish governments yesterday tabled a fresh blueprint for a political settlement in Northern Ireland after a day of frantic diplomatic activity between Dublin, Belfast and Tokyo, where Tony Blair, the UK prime minister, is on an official visit.

Mo Mowlam, the chief Northern Ireland minister in the UK government, hailed the blueprint as a "breakthrough" after the nationalist and pro-British unionist parties involved in peace talks in Belfast agreed to a full debate on its contents today.

"There has been a breakthrough. I don't know how big, but it's there. People are willing to come back tomorrow to talk about it," Ms Mowlam said.

The centrepiece of the proposals is a new treaty between the UK and the Irish Republic, accompanied by a north-south body comprising politicians from Northern Ireland and the Republic.

Ms Mowlam described the paper as the two governments' "best judgment" as to the likely outcome of negotiations.

Gerry Adams, president of Sinn Féin, the political arm of the IRA, and Martin McGuinness, the party's chief negotiator, were not in Belfast to comment on the proposals.

David Trimble, the Ulster Unionist party leader, said the package "still needs refining and development. I'm not endorsing it." But he added: "There is nothing that obstructs or flatly contradicts the sort of objectives towards which we are working."

The initiative follows a tense two weeks over Christmas when the killing of a loyalist leader triggered reprisal murders of three Roman Catholics, raising fears that the province was slipping back into sectarian violence.

London and Dublin hope the document will form the basis for substantive negotiations over the coming months. Mr Blair has said he hoped to see a settlement agreed by May, which would then be ratified by concurrent referendums in Northern Ireland and the Irish Republic.

The proposals envisage a new power-sharing assembly elected by proportional representation, provisions to safeguard the rights of both communities and measures to deal with prisoners, security, policing and the arms question.

The parties meet today in a full session at Stormont Castle.

The reopening of the talks followed a night of intensive telephone talks between Mr Blair and most of the leading participants, including Mr Adams.

Pave way for deal, Page 10

Iraq threat to UN arms team may cause stand-off

By Laura Silber in New York

Iraq yesterday announced it would block a United Nations arms inspection team led by an American whom it claims is a spy. The move is likely to provoke another stand-off with the UN.

The ban on Scott Ritter would be effective from today, according to an announcement by Iraqi News Agency.

Iraq has repeatedly denounced Mr Ritter, a former US marine captain who served in the 1991 Gulf war, as a US spy working under the cover of UN inspections teams.

Kofi Annan, the UN secretary-general, called the Iraqi decision the "first hiccup" in the UN mission since Baghdad resumed co-operation with inspectors at the end of a month-long stand-off last November. The UN withdrew its inspectors from Iraq after Baghdad said it would expel American team members.

Baghdad's decision is likely to raise tensions with the UN security council, where France, Russia and China favour an early lifting of sanctions against Iraq. Their approach is softer than that of the US and the UK, the other permanent council members.

Mr Annan, who last night was meeting Richard Butler, chief UN arms inspector, to discuss developments, said: "We have not decided to halt any inspections. The teams are on the ground." UN diplomats said Iraq had not officially informed them of the decision.

Mr Annan urged Iraq to refrain from "any precipitous action. My advice would be to wait and discuss these issues with Mr Butler."

The chief weapons inspector, an Australian, is due in Baghdad on January 19 to discuss access to suspected weapons sites placed off-limits by Iraqi authorities.

Iraq on Sunday complained that a new 16-member UN inspections team, headed by Mr Ritter, was "unbalanced" as it was made up of nine Americans, five Britons, one Russian and one Australian.

The latest UN inspection mission would have been the first significant challenge to Iraq since last year's crisis because it was to entail unannounced concealment inspections rather than weapons monitoring.

Last year the UN said it would not allow Iraq to dictate the composition of UN inspections teams. Russia persuaded Iraq to allow the return of UN weapons inspections teams – with their American members.

Envoy fears conflict, Page 4
Challenge lifts oil, Page 28

US cash system maker eyes Europe

By Peter Marsh in London

Currency Systems International, a US-based company that makes bank note processing systems, is planning to triple its European employees over the next three years. It believes the move to a single European currency will offer many business opportunities.

The company, one of the world's four big makers of these systems, has already transferred some senior management functions from its Dallas headquarters to Europe. It intends to double its $50m annual sales in the continent by 2000.

Its European staff of about 70 is likely to increase because of the need to replace most of Europe's 12bn banknotes.

Their replacement by euro-denominated notes will require novel sorting systems likely to be more sophisticated than existing note processing equipment. The notes will be legal tender across much of Europe but will have features that are unique to specific countries.

World sales of banknote processing systems, used by central and commercial banks and retailers, are put at £1bn ($1.6bn) a year.

The two biggest suppliers are De La Rue of the UK and Germany's Giesecke & Devrient, both of which are increasing their technology and marketing efforts before economic and monetary union.

CSI, with European headquarters near London, is the third biggest company in this field in Europe, but has been catching up fast.

Since 1995 it has been majority owned by GD, a private Italian company that is one of the world's three biggest makers of cigarette production machinery.

The fourth big company in banknote processing equipment worldwide is Toshiba of Japan.

With projected global sales this year of $70m, CSI already gets more than two-thirds of its sales from Europe.

THE LEX COLUMN

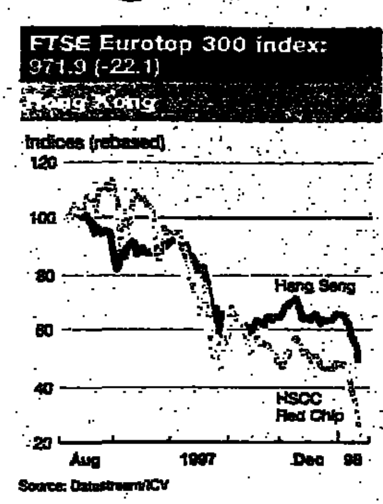
Creeping correction

Once again, a stormy Asian morning turned into a calmer American afternoon. US investors are still "buying on the dips", apparently reassured that Asia's woes will have only a limited effect on the US economy. As a result, the US stockmarket largely ignored the drop in Hong Kong – though, of course, it fell 5 per cent last week.

Wall Street has yet to discount the full impact of Asia's problems. A quarter of US imports are sourced in Asia, and Far Eastern companies, aided by devalued currencies, will be exporting to the west for all they are worth. In Europe, the scope for restructuring should help companies offset falling prices by cutting costs. That will be harder for US corporates, given a tight labour market and their already higher productivity levels. Meanwhile, US economic growth is vulnerable to a slowdown in consumer spending and inventory build-up, both of which have grown above trend in the past few years.

The combination will hit profits hard. While Wall Street's bottom-up industry analysts on average still blithely expect earnings growth of 14 per cent this year, the number will almost certainly be much lower. Equity strategists put the figure at 7 per cent this year and just 3 per cent in 1999. Yet valuations remain stretched, with the S&P Composite trading on 19 times current year earnings. This raises the likelihood of a creeping crash, where the market slides slowly and bumpily, as investors adjust gradually to further bouts of bad news.

FTSE Eurotop 300 index: 971.9 (-22.1)



Source: Datastream/ICV

Hong Kong

Asian fund managers who thought Hong Kong a safe haven from regional turmoil have had a rude wake-up. In itself, the demise of Peregrine ought not to have prompted further share price carnage. The failure of the hometown investment bank may be a blow to pride, but it does not pose systemic risk. And measured against most of its Asian neighbours, Hong Kong's standards of economic and corporate governance have been exemplary. Moreover, where other leaders have preferred truculence or denial, its politicians have kept their heads admirably.

Alas for Hong Kong, the unpalatable truth is that no amount of good behaviour will allow it to remain untainted by the problems of the region. The policy of pegging the currency to the US dollar remains correct, especially in the current volatile climate. But so long as regional currencies are in turmoil, the price of this link is higher interest rates, which is bad news for equities. And with calm waters some way off, an early respite looks unlikely.

For investors wanting to maintain exposure, cash rich blue chips able to benefit from high interest rates look a good bet. So too do companies with exposure to Chinese infrastructure spending. To be avoided are interest-rate sensitive sectors like property and financials. Likewise, those "red chips" whose potential rests on little more than political connections on the mainland – precisely the sort of cronyism that has discredited markets like Indonesia.

Deutsche Bank

Deutsche Bank's scheme to integrate its commercial and investment banking businesses clearly makes sense. A single division serving big corporate clients ought to be able to generate more business by using Deutsche's excellent relationships to sell Deutsche Morgan Grenfell's high-margin products. Nevertheless, the plan does highlight how DMG is still stuck in investment banking's muddled middle, while the likes of Merrill Lynch forge ahead. The main weakness, masked until global markets started to suffer at the end of last year, is too little corporate finance business. The mooted reorganisation would at least address this issue head on.

Still, actually integrating the two businesses could provoke culture clashes in an organisation that currently lacks a coherent culture. Tricky decisions would have to be taken on whether a commercial or investment banker should take the lead role with each large client. And commercial bankers, typically paid less than the investment bankers, could easily get bitter.

That said, if the scheme worked, it would not merely pep up Deutsche's investment bank but would change the commercial banking side radically too. The "house bank" model – under which Deutsche was happy with cosy, long-term relationships even if they produced only low-margin lending business – would have to go. The resulting harder-nosed approach would be healthy for German banking, and industry too.

French unemployment

If Lionel Jospin, the French prime minister, can pacify unemployed protesters with limited one-off payments – albeit after some more uncomfortable ejection scenes – this latest outburst should prove a storm in a teacup. With tax receipts rising and unemployment starting to fall, a FFr1bn ($160m) emergency fund presents no threat to the budget. The greatest risk is that further violent protests extract immediate benefit increases too. With a "social exclusion" bill scheduled for March, the government should refasten the coffers now. That bill may produce a more worrisome palliative in restoring some of the benefit cuts imposed on the long-term jobless. But even this could be mitigated by spending reductions elsewhere, and it is in any case cheaper than creating more public sector jobs.

Much more important are initiatives related to the private sector, including damage limitation on the proposed 35-hour working week. So far, signs of flexibility are encouraging. Annualising working hours and cutting overtime rates, for instance, would lessen the impact on unit labour costs, which have been flat or falling in France this decade.

What has yet to happen, however, is the pruning of a thicket of deterrents to job creation. Employers are rightly clamouring for reforms to employment charges and regulations, which pile up as a company expands. If the Jospin government can rebuild bridges with the private sector, investors should have little to fear in a country that remains on a strong recovery path.

Additional Lex comment on Tomkins, Page 24

Court appeal against Emu

Continued from Page 1

had made their formal choice of founder members on May 2.

The official said that the period between late March and early May was likely to prove "the last hurrah" for opponents of Emu. The Commission will issue recommendations on which countries meet the Emu criteria on inflation, exchange rate stability, public debt and deficits in late March.

All EU members except Britain, Denmark, Greece and Sweden are expected to join the first wave.

Wilhelm Hankel, a former Bonn monetary official, said he and the three other German professors were not against Emu as such, but they wanted to halt the present timetable.

Professor Hankel lodged the complaint along with Wilhelm Nölling, a former member of the Bundesbank's decision-making council, Karl Albrecht Schachtschneider, a constitutional specialist at the University of Nuremberg, and Joachim Starbatty, an economics professor and expert on the social market economy from Tübingen University.

HK bank collapse

Continued from Page 1

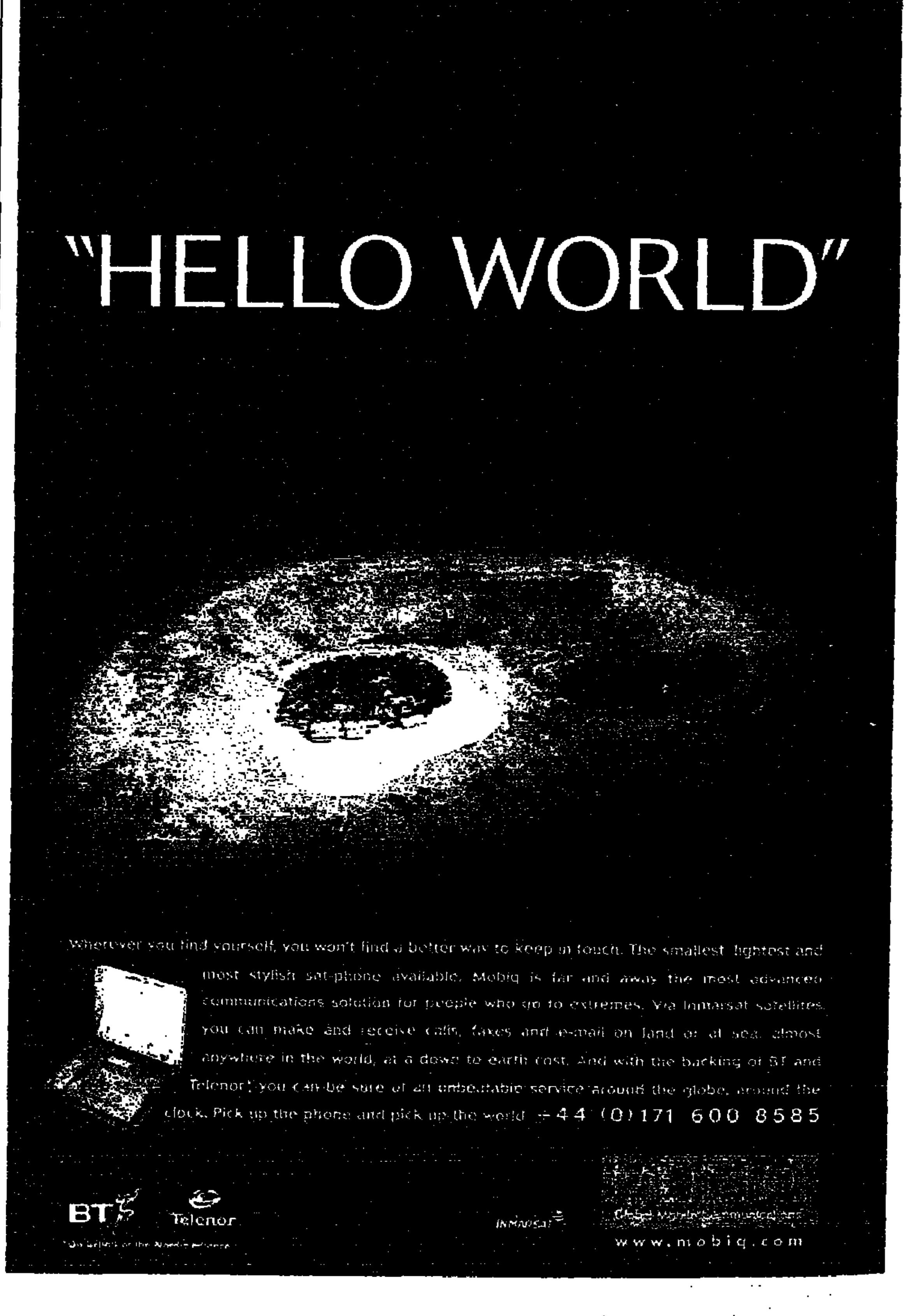
and I think it is going to be hard to navigate."

Once again, there was a flight of capital to relative safe havens. Yields on US, German and UK government bonds all fell to the lowest levels in several decades. The UK government bonds – gilts – market continued to surge, with the March future contract closing ¾ higher at 124¼ and the yield on 10-year gilts staying comfortably below 6 per cent.

In Germany, the yield on 10-year bunds - government bonds - edged close to 5 per cent, hitting a record of 5.02 per cent at the day's high.

The dollar also retained its safe haven status against subdued Asian currencies, gaining Y1.61 against the Yen to close at Y133.1 in London. By contrast, Latin American bond and equity markets fared badly, with the Venezuela stock market down 11 per cent at one stage.

Hans Tietmeyer, president of Germany's Bundesbank who chaired a meeting of his G-10 colleagues in Basel yesterday, tried to calm markets, saying he "hoped Korea was now on the way to improvement".



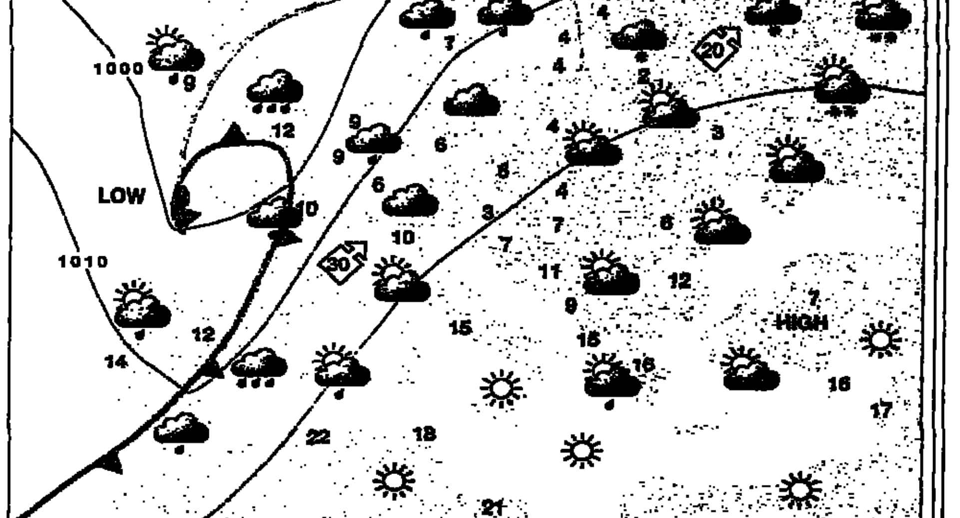
FT WEATHER GUIDE

Europe today

Scandinavia will be mild with rain in the south and west but the north and east will be cold with snow. The Low Countries, Germany, Austria and Switzerland will have thickening cloud which will bring rain to many parts. Most regions of France will have rain or showers. Rain will clear Portugal to leave sunshine and showers. Rain will move eastwards across Spain, clearing this afternoon. The remainder of the Mediterranean will have good sunny spells and the odd shower. The Balkans will be dry with sunny periods. Eastern Europe will have some sunshine in more southern parts but there will be snow flurries in the north.

Five-day forecast

Western and northern parts will be unsettled and mild with further spells of rain but it will turn colder later in the week. The east and south will become more unsettled with rain and showers in many parts and snow in the east.



TODAY'S TEMPERATURES

Situation at midday. Temperatures maximum for day. Forecasts by PA WeatherCentre

	Maximum	Beijing	Fair 1	Cardiff	Rain 10	Frankfurt	Fair 6	Madrid	Rain 12	Rangoon	Fair 32
	Celsius	Belfast	Shower 7	Casablanca	Shower 18	Geneva	Cloudy 8	Majorca	Fair 19	Reykjavik	Cloudy 3
Abu Dhabi	Fair 20	Belgrade	Sun 12	Chicago	Fair -8	Gibraltar	Shower 17	Malta	Fair 18	Rio	Thunder 30
Accra	Sun 32	Berlin	Cloudy 6	Cologne	Fair 9	Glasgow	Rain 8	Manchester	Rain 10	Rome	Cloudy 15
Algiers	Shower 22	Bermuda	Shower 20	Dakar	Sun 26	Hamburg	Cloudy 8	Manila	Fair 31	S. Frsco	Fair 13
Amsterdam	Cloudy 10	Bogota	Shower 20	Dallas	Sun 12	Helsinki	Rain 3	Melbourne	Cloudy 30	Seoul	Fair 5
Athens	Fair 16	Bombay	Sun 33	Delhi	Fair 24	Hong Kong	Rain 20	Mexico City	Fair 21	Singapore	Thunder 32
Atlanta	Rain 18	Brussels	Fair 10	Dubai	Fair 18	Honolulu	Sun 27	Miami	Fair 27	Stockholm	Rain 6
B. Aires	Fair 32	Budapest	Fair 5	Dublin	Rain 8	Istanbul	Sun 11	Milan	Cloudy 7	Strasbourg	Fair 7
B.ham	Rain 9	C.hagen	Rain 7	Dubrovnik	Fair 15	Jakarta	Thunder 32	Montreal	Snow 0	Sydney	Fair 29
Bangkok	Fair 34	Cairo	Fair 19	Edinburgh	Rain 9	Jersey	Rain 13	Moscow	Snow 0	Tangier	Rain 17
Barcelona	Cloudy 17	Caracas	Fair 29	Faro	Fair 17	Johannesburg	Shower 26	Munich	Fair 6	Tel Aviv	Cloudy 17
						Karachi	Fair 26	Nairobi	Thunder 25	Tokyo	Fair 9
						Kuwait	Fair 17	Naples	Fair 18	Toronto	Snow 0
						L. Angeles	Fair 18	Nassau	Fair 26	Vancouver	Rain 7
						Las Palmas	Rain 23	New York	Cloudy 6	Venice	Fair 10
						Lima	Cloudy 28	Nice	Drzzl 14	Vienna	Fair 4
						Lisbon	Shower 14	Nicosia	Sun 16	Warsaw	Rain 5
						London	Rain 12	Oslo	Rain 4	Washington	Rain 11
						Lux.bourg	Shower 6	Paris	Cloudy 11	Wellington	Fair 18
						Lyon	Fair 14	Perth	Fair 25	Winnipeg	Sun-18
						Madeira	Fair 18	Prague	Fair 2	Zurich	Fair 5

FINANCIAL TIMES
COMPANIES & MARKETS
©THE FINANCIAL TIMES LIMITED 1998 Tuesday January 13 1998 Week 3

INSIDE

Andersen divorce may prove costly

Andersen Consulting stunned Arthur Andersen, its fellow international professional services organisation, with its decision in December to seek a split. AC could walk away, but at a price. It might be forced to pay compensation of up to 1.5 times net revenues – about $11.5bn. Page 18

Barclays sells part of BZW Asia business

Barclays, the UK banking group, continued its retreat from investment banking, selling only part of BZW's Asian equities operations to Credit Suisse First Boston. The bank is likely to have realised about £300m ($489m) for the £400m in assets it put up for sale, not counting significant reorganisation costs in London. Page 24

New owner to trim Koor Industries

Claridge Israel, the investment company controlled by the Charles Bronfman family of Canada, plans to continue the sale of non-strategic holdings of Koor Industries, Israel's biggest conglomerate which Claridge took over last year. Jonathan Kolber (left), deputy chairman of Koor and president of Claridge Israel, said: "We're going to continue to do that but we will do it a little more aggressively." Page 19

Indonesian crisis hits commodities

The sharp devaluation in Indonesia's currency has brought little comfort to the country's commodity producers. All three main sectors of palm oil, rubber and timber face difficulties, according to economists and bankers. Page 28

Companies in this issue

ABN Amro	19, 20	Hilton Hotels	18
Adidas	20	Hunosa	3
Air Holland	24	ING Barings	20
Airbus Industrie	4	Keppel Bank	22
Alcatel Alsthom	20	Kirch	3
Allegheny Teledyne	24	Komercni Banka	20
Andersen Consulting	18	Koor	19
Arthur Andersen	18	LDV	10
Atchison Casting	24	Lindt & Sprungli	20
BMG	4	Mannesmann	19
BNP	19	Marpos	19
BRE	20	Merrill Lynch	17
BSkyB	9	Metro Pacific	22
Barclays	24	Motorola	3
Barnett Bank	18	Nalco	22
Bertelsmann	3	NationsBank	18
Boeing	4	Nike	20
Boosey & Hawkes	24	Oracle	9
CCF	19	Oxbow Power Services	4
CIC	19	Pace Technology	9
CSFB	24	PepsiCo	18
CSI	16	Peregrine	1,17
Calpers	24	Pharmacia & Upjohn	18
Carl Fischer	24	Philips	19
Claridge Israel	19	PolyGram	4
Compaq	9	Reebok	20
Cosco	22	Renong	22
Crédit Mutuel	19	Royal Dutch/Shell	17
DAM	20	SCA	19
Daewoo	10	SGS	20
Delta Air Lines	4	Salomon	20
Deutsche Bank	22	Sheff'd Forgemaster	24
Deutsche Morgan Gren	1	Siemens	3
Deutsche Telekom	3,19	Skanska	19
Dexia	19	Société Générale	19
EL & C Baillieu	22	Sony	4,24
EMI Group	4,24	Sprint	20
EasyJet	24	Sun Micro Systems	17
Fiat	19	Svenska Handelsbank	19
Figaredo	3	TP	3
First Pacific	20,22	Tat Lee Bank	22
Fyffes	24	Tel-Energo	3
GAN	19	Tomkins	24
Geest	24	UBS	20
Generale de Banque	19	UEM	22
Ghirardelli	20	UK Active Value	24
HDP	19	VSZ	20
Hagemeyer	20	Valentino	19
		Warner Music	4
		WorldCom	22

Market Statistics http://www.FT.com

Annual reports service	32,33	FTSE Actuaries share indices	34
Benchmark Govt bonds	25	Foreign exchange	27
Bond futures and options	28	Gilts prices	25
Bond prices and yields	28	London share service	32,33
Commodities prices	28	Managed funds service	29-31
Dividends announced, UK	24	Money markets	27
EMS currency rates	27	New intl bond issues	28
Eurobond prices	28	Bourses	36,37
Fixed interest indices	28	Recent issues, UK	34
FT/S&P-A World indices	35	Short-term int rates	27
FTSE Gold Mines index	34	US interest rates	25
Emerging Market bonds	28	World stock markets	35

CROSSWORD, Page 28

Chief price changes yesterday

FRANKFURT (DM)				**PARIS (FFr)**		
Rises				**Rises**		
Pressag	540.5	+ 21.5		Immob Hotel	27.8	+ 6.7
Moksel	13.0	+ 0.5		RPP	256.0	+ 33.7
Jungheinrich	302.0	+ 10.0		Metal Deploye	375.0	+ 34.0
Falls				**Falls**		
VEW Hldgs	235	- 25		Coflexip	518.0	- 56.0
Hoechst Zinn	95.0	- 7.0		Prodef	525.0	- 55.0
Tarkett	41.0	- 2.9		Bouygues	218.0	- 20.4
NEW YORK ($)				**TOKYO (Yen)**		
Rises				**Rises**		
Intercel	12¾	+ 2		Daiwa House	789	+ 48
SGS Thomson	56⅞	+ 4½		**Falls**		
USX US Steel	30⅞	+ 1⅞		Citizen Watch	834	- 47
Falls				Kagome	605	- 35
Central Park	30	- 2⅝		Oki Electric	212	- 34
Fairfield Cmn	38¼	- 2⅜		Sumitomo T&B	558	- 46
J Ray McDermott	32	- 3		Zenol Corp	252	- 43
LONDON (Pence)				**HONG KONG (HK$)**		
Rises				**Rises**		
Cortecel Land	163½	+ 16		Bnk E Asia	13.4	+ 2.3
Elliott (B)	93½	+ 20		Beijing Ent	10.15	+ 3.25
Liberty	350	+ 25		CLP Hldgs	34.8	+ 3.8
Falls				Cheung Kong	33.6	+ 4.2
BOC	900	- 35		Henderson Lnd	24.5	+ 2.95
Servisair	290	- 65		SHK Ppt	33.1	+ 6.4
TI Grp	486	- 24		**BANGKOK (Baht)**		
TORONTO (C$)				**Rises**		
Rises				City Sports	17.25	+ 3.75
Dacio Res	2.05	+ 0.35		Hotel Thai	24.5	+ 4.5
Transglobe	1.75	+ 0.32		Nipor Elect	27.25	+ 4.75
GLT Photo	18.75	+ 2.0		**Falls**		
Falls				Forcenest	73.5	- 30.5
Alta G & E	39.0	- 3.6		Preecha Grp	17.25	- 7.25
Foremost Inds	11.5	- 1.5		Siam Sport	31.0	- 13.25
Stackpole	15.5	- 3.0				

New York prices at 12.30pm.

Creditors await Peregrine fallout

Collapsed Hong Kong bank with debts of up to $1bn looks for buyers

By Louise Lucas in Hong Kong

Creditors to Peregrine, the pan-Asian bank which went into liquidation yesterday, began calculating their exposure to the bank's outstanding debts, which some estimates put as high as US$1bn.

Talks to sell certain parts of the Hong Kong-based bank – namely derivatives, stockbroking, corporate finance and a stake in the Asian Infrastructure Fund – were being held. Potential buyers include AIG, the American financial services group.

Executives at Peregrine's corporate finance and broking operations in New York and London said several expressions of interest had been received from leading US banks.

Tung Chee-hwa, Hong Kong's post-colonial leader, said Peregrine's failure did not pose a systemic risk, but analysts underlined the impact that Peregrine's failure would have on confidence in the territory.

"They were an important symbol here," said the head of a rival investment bank. "They were Hong Kong's home-grown investment bank and they took on the big boys successfully in the region and in China in particular."

First Chicago, the US bank which was to have taken a 2.5 per cent stake in Peregrine, is one of Peregrine's main bankers. Analysts said that the exact extent of its exposure would take time to establish.

Other banks with credit lines to Peregrine include HongKong Bank, Deutsche Bank, Société Générale and Credit Suisse. The exposure of Credit Suisse, the Swiss bank, is thought to be about $40m according to analysts. Credit Suisse declined to comment.

The Hong Kong Monetary Authority, which supervises the banking sector, said exposure of local banks to Peregrine was modest compared to international lenders.

Steven Thompson, chief analyst at Nikko Research Centre in Hong Kong, said the creditor banks "look pretty safe". Another analyst agreed: "It's not a black hole. I think you will see the creditors recover something."

Peregrine sources originally put outstanding debts at around $400m, but some estimates outside the company believe the total could be more than $1bn. "If you have $800m in equity and $400m in debt you don't go bust," says Peter Everington, chairman of Regent Pacific Fund Management.

Peregrine, which employs about 1,700 staff, was forced to close following the collapse of rescue talks on Friday with Zurich Group of Switzerland. The Swiss financial services company pulled out of a $200m capital injection following the revelation that Peregrine was owed more than $200m by Steady Safe, an Indonesian taxi and bus company linked to the Suharto family.

Peregrine was underwriting a Rp534bn ($80m) rights issue which was postponed. While Peregrine would not comment on outstanding loans to the group, analysts have calculated its losses at about $170m.

Insiders at Peregrine also said that First Chicago's apparent refusal last week to provide a bridging loan to Peregrine was one of the main reasons for Zurich Group's decision to pull out.

● Britain's National Westminster Bank said it hoped shortly to conclude the sale of its Hong Kong-based "greater China" equities business. It has closed offices in Manila, Kuala Lumpur, Singapore and Bangkok with the loss of 40 jobs.

Barclays/CSFB deal, Page 24

Low-cost computers from Sun stir market

By Louise Kehoe in San Francisco

Sun Microsystems will today launch low-priced machines that combine workstation and personal computer features in an attack on the market for computer workstations.

Sun says the machines will have the performance and reliability of traditional Unix workstations at prices that undercut the new generation of Windows NT workstations. Sun's lowest-cost model, for example, will cost $2,995 in the US. Equivalent machines from Compaq sell for $3,400.

Sun, which pioneered the workstation market 15 years ago, has recently faced intense competition from companies such as Compaq Computer and Hewlett-Packard offering workstations based on high-performance personal computer technology.

In particular, workstations based on Intel microprocessors and Microsoft's Windows NT operating system have invaded the market hitherto dominated by machines based on Risc (reduced instruction set computing) microprocessors and the Unix operating system.

Other workstation manufacturers, including IBM and HP, have "virtually abandoned" the Unix workstation market for Windows NT, said Ed Zander, president of Sun Microsystems. "We are taking a contrarian approach."

Silicon Graphics, another Sun competitor, is also moving to adopt Windows NT and Intel technology for its next generation of graphics workstations.

Rather than bend to the industry trend, Sun will today announce a range of workstations priced to undercut its competitors. "This is not a defensive move. We are on the offensive," Mr Zander said.

To achieve lower prices, Sun is adopting some of the standards for peripheral connections, power supplies and chassis design used in the personal computer industry. This will enable the company to use lower-priced, high-volume parts that are used by PC makers.

Sun is also planning to offer its workstations for sale via the internet, emulating the trend in the PC market where corporate buyers place orders online.

Workstations represent nearly half of Sun's revenues.

Cheaper debt boosts bond issues

Companies pursuing shareholder value make most of falling yields

The rally in European and US bond markets has triggered a big rise in corporate bond issues as treasurers make the most of the cheapest long-term debt in decades.

A recent surge in bond prices has been partly encouraged by the sharp decline in government bond sales, as western governments have reduced budget deficits. But corporate issuers look set to fill much of the void.

Eden Riche, head of debt syndication at Morgan Stanley Dean Witter, said: "Domestic corporate bond issuance in the US is heading towards over $50bn in January, which would be a record." He projected a similar boom in Europe.

On Tuesday alone, the US market raised $4.4bn from corporate bond issues, following the long bond yield's push below 5.75 per cent.

"It was one of the strongest days in recent memory, and it tells us that lower borrowing costs haven't lost their ability to effect economic activity," said John Lonski, senior economist at Moody's in New York.

Lucent Technologies, the telecommunications equipment manufacturer spun off from AT&T, is a recent example. It issued $300m in 30-year debentures last week, the company's first such issue since July 1996.

Although Lucent's treasurer, Meg Walsh, said the company had no need to raise the capital at this time, it used the low interest rates to rebalance the company's portfolio away from floating and toward more fixed rate debt.

"If we had issued similar debt in early November, it would have added $36m in interest expense over the life of the bond," she said.

According to Capital Data, the value of international bond issues in January is up by almost 20 per cent, despite the existence of an additional trading day in January last year.

The fall in yields, particularly on long-term debt, has coincided with the new corporate creed of shareholder value. Buying back shares and increasing debt, especially in the current low interest rate environment, reduces a company's weighted average cost of capital, helping improve returns for shareholders.

In the UK, the impending removal of advance corporation tax will cut tax bills for multinational companies pursuing share buy-backs.

Gerald Corbett, chief executive at Railtrack, the privatised UK rail operator, said: "The ACT changes in the last UK budget made equity more expensive, and long-term debt has become much cheaper because of the yield curve, so capital structures should change. The value of leverage has increased, and we should see more corporate bond issuance."

Bond swap spreads are the most favourable in years. Swap spreads are the rate at which issuers of fixed interest rate bonds can swap into floating rate payments that move with average lending rates. Wide spreads allow companies to borrow well below bank rates and have been a factor in the surge in US issuance.

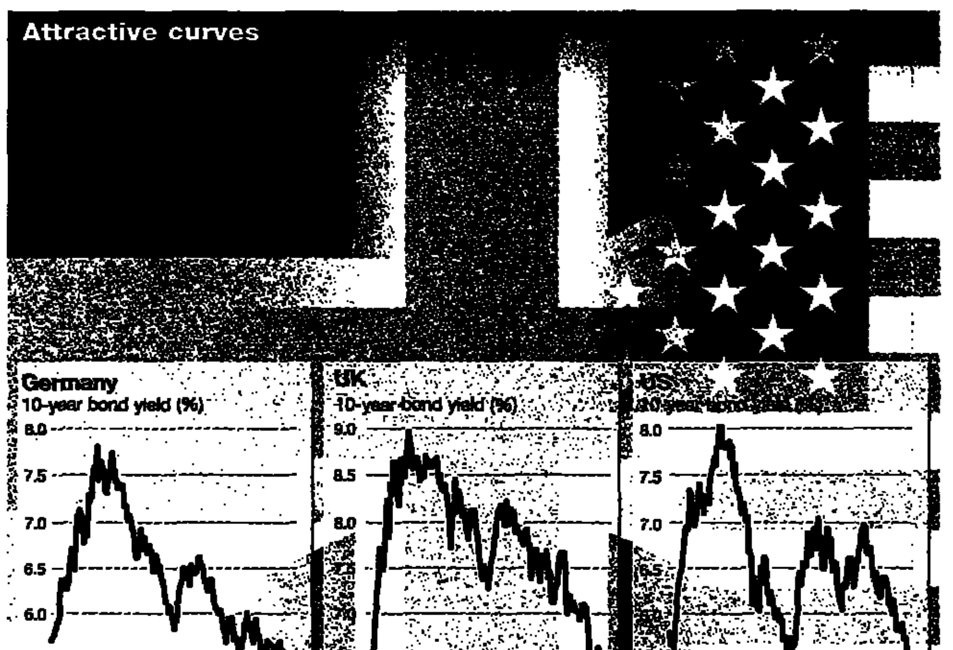
The main caveat in the UK, however, is demand for capital. British companies are far less leveraged than their counterparts in the US and Europe, and have been keener to give cash back to shareholders, rather than spend it.

David Kappler, finance director at Cadbury Schweppes, said: "There is almost excessive cash generation in corporate UK, so the demand for capital may not be that great." However, he admitted that Cadbury was looking "at one or two of our dollar financings", to see if they could be more appropriately funded through the bond market.

Issuance is expected to remain at high levels. Mr Riche said: "There is a lot of cash on the sidelines, waiting to be invested."

Simon Davies
John Labate

Attractive curves



Source: Datastream/ICV

Fund managers bearish on domestic economic growth

By Jane Martinson, Investment Correspondent

Fund managers around the world are turning to defensive sectors of the stock market and bonds as they become increasingly pessimistic about domestic economies, according to a report released yesterday.

The survey by Merrill Lynch, the US investment bank, and Gallup, the market research company, found that fears about fallout from the Asian crisis combined with doubts about the economic cycle are making fund managers more bearish than at any time for the past three years.

Just 3 per cent of US institutional investors surveyed are bullish on the US economy over the next 12 months. This is the lowest level of optimism since the poll started in 1994.

In the UK, only 14 per cent of fund managers, with assets of £1,043bn ($1,700bn), expect further growth in the domestic economy this year. The last time UK fund managers were so pessimistic was in 1990, according to Bijal Shah, global strategist at Merrill Lynch.

"Fund managers across the globe are getting more gloomy on the outlook for the domestic economy," he said. Some 275 institutional investors with funds under management of $5,615bn responded to the monthly survey.

Mr Shah said managers were worried about domestic factors. In the UK these included a tightening monetary policy while in the US fears about Asia appear to have exacerbated concerns about the overheated stock market. Almost half of US managers felt that the US equity market was overvalued while no manager believed it was undervalued.

More than half of US fund managers are also wary about the outlook for corporate profits with 54 per cent believing that earnings will disappoint this year.

The expected global slowdown is pushing fund managers into defensive, countercyclical sectors of the stock market. For US managers, these include consumer staples whereas UK managers favour pharmaceuticals and food retailing. Chemicals, oil and engineering shares are being shunned. In Japan, fund managers are moving into sectors such as utilities and away from the financial stocks.

Mr Shah predicted lower gilt yields as buying pressure continues.

The one ray of light for investors appears to be continental Europe. Bulls of shares in the region outnumber bears by 50 per cent on three-month and 12-month outlook.

More top Shell jobs for women

By Robert Corzine

Royal Dutch-Shell, one of the world's biggest oil companies, plans to shake up its tradition-bound corporate culture by increasing the number of women and nationalities in its top management tier.

If successful, the move will transform the current male-dominated and overwhelmingly British and Dutch ranks of Shell's senior executives.

Over the next five years it plans to increase the number of women in the top 400 management positions from the present 4 per cent to about 20 per cent.

The narrowness of Shell's senior management base has been cited by critics as one reason why it has struggled with rapid change in its business.

Critics point to the controversy over the scrapping of the Brent Spar oil rig and Shell's problems with human rights in Nigeria. They say a broader management base might have helped the company to respond more effectively to those issues.

John Hofmeister, the American recently appointed Shell's international head of human resources, said yesterday the company had completed a study into management diversity as part of its long-term strategy to transform the heavily bureaucratic group into a more nimble competitor.

It showed that if Shell did nothing to bring about greater diversity, the nationalities and gender of senior executives in 10 years would be broadly the same as those of today's generation of top managers.

Mr Hofmeister, who joined Shell four months ago after running corporate transformation programmes at AlliedSignal in the US, noted that 80 per cent of Shell's employees worldwide come from countries other than the UK and the Netherlands and this ought to be reflected in top management.

COMPANIES AND FINANCE: THE AMERICAS

More change at the top for P&U

By Daniel Green

Pharmacia & Upjohn, the troubled US-Swedish pharmaceuticals company, is replacing its finance director in the latest and highest-profile personnel change since Fred Hassan took over as chief executive in May 1997.

Bob Salisbury, who will stay on as finance director until a successor is found, took a prominent role in the merger of Pharmacia and Upjohn as the right-hand man of John Zabriskie, the chief executive who left almost a year ago. He had been chief financial officer at Upjohn since 1989, having joined the company in 1974, and becoming vice-president for corporate finance and taxes in 1985.

P&U shares trading on the US Nasdaq exchange were $1.19 lower at $34.25 in early trading yesterday.

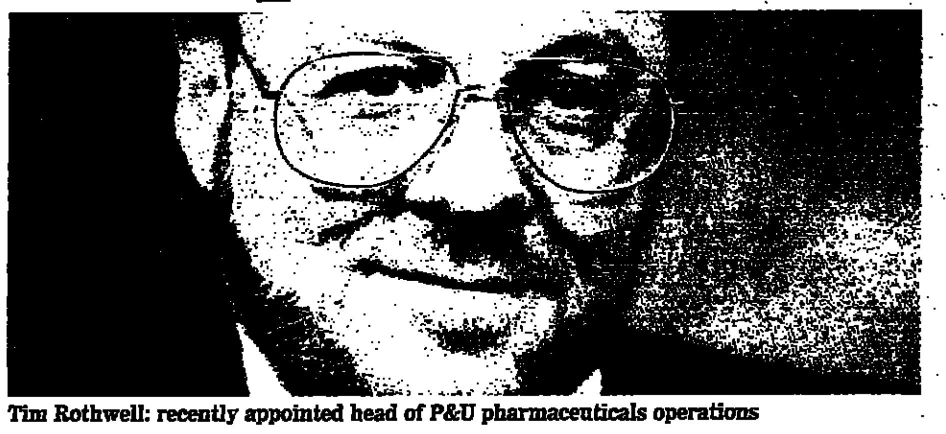
Mr Hassan was brought in to rebuild the company following two years of profit warnings and headquarters relocations. The company ran into trouble shortly after its creation through the merger of Sweden's Pharmacia and Upjohn of the US at the end of 1995. Cultural clashes slowed restructuring and, combined with a shortage of new products, led to the profit warnings and Mr Zabriskie's departure.

Mr Salisbury's departure will leave Mr Hassan's small board of directors almost entirely comprised of his own appointees.

Last week, Mr Hassan appointed Tim Rothwell as president of Pharmaceuticals Operations. Mr Rothwell is leaving Rhône-Poulenc Rorer, the French-owned US-based drugs company. RPR's parent, the chemicals company Rhône-Poulenc, plans to sell its chemicals arm and turn itself into a life-sciences company by making RPR its core business. Mr Rothwell, 47, was previously chief executive of Sandoz Pharmaceuticals USA.

Other recent board-level changes at P&U include Rick Collier, who joined in December as chief legal officer, and Carrie Cox, who joined in August from American Home Products as vice-president of global business management. These changes leave Goran Ando, head of research and development, as the sole board member from before the merger.

Mr Ando, a former executive with Glaxo Wellcome, the UK pharmaceuticals company, has already been promoted under Mr Hassan to have sole responsibility for research and development. Previously it was divided among three executives in P&U's decentralised structure, intended as a compromise between the interests of Pharmacia and Upjohn staff.



Tim Rothwell: recently appointed head of P&U pharmaceuticals operations

Federal-Mogul expands further with $720m buy

By Nikki Tait in Chicago

Federal-Mogul, the Michigan-based automotive parts supplier, is to acquire Chicago-based Fel-Pro, which makes diesel engine parts and gaskets, for $720m.

The deal comes on the heels of Federal-Mogul's £1.5bn purchase of T&N of the UK.

Fel-Pro put itself on the market last year. The privately owned company, based in Skokiep and founded in 1918, has annual sales of about $500m and employs 2,700. Profits before interest and tax are about $80m. Gaskets account for the lion's share of its turnover, with annual sales of about $350m.

Yesterday, Federal-Mogul said that the acquisition, coupled with the T&N deal, would help augment its product line and give it a $1bn global sealing business.

Richard Snell, Federal-Mogul chairman, said the purchase should add to earnings in 1999, although he admitted that it might be "slightly dilutive" in 1998. Some analysts suggested that next year's earnings accrual could be as much as 20 cents share, a figure Mr Snell said he was comfortable with.

He said it was "possible" some smaller operations within Fel-Pro, which includes a chemicals unit making lubricants, adhesives and epoxy/urethane materials, might be sold.

Federal-Mogul estimated that annual synergies of $35m would be possible by 1999.

The deal is the latest by the group since the arrival of Mr Snell, a former Tenneco executive, in late 1996. He abandoned his predecessor's push into retail outlets, closed non-core operations, realigned European manufacturing operations and reduced the workforce by almost 3,000.

In September, the group made its ambitious bid for the larger T&N group. That deal is only awaiting regulatory clearances.

Federal-Mogul is offering $225m in its shares and $495m in cash for Fel-Pro. The T&N deal is set to increase its gearing, which the Fel-Pro deal will push even higher in the short-term.

However, it has already signalled plans for a big equity offering. Mr Snell said the aim was to bring the debt-to-capital ratio back to the "low 40 per cent" range, although possibly not via one single equity offering.

Analysts have been supportive of the revamped approach at Federal-Mogul. Ron Tadross, at Salomon Smith Barney, said that "strategically, the deal makes a lot of sense", although he noted that "obviously financing is an issue".

Federal-Mogul shares jumped almost 5 per cent, or $1 11/16 to $41 5/8.

Andersen bad blood spells a difficult path to divorce

Dispute over consulting arm's desire to split could last years

It's a game of chess with $11bn stakes. Andersen Consulting has made its first, stunning, move. Now Arthur Andersen is pondering a reply. Unless they agree a draw the world's biggest professional services organisation could be locked in dispute for years.

While the two firms – in fact two separate businesses under the umbrella of Andersen Worldwide – may have been in open dispute over competition and governance for some time, there is no doubt that Andersen Consulting's decision on December 17 to seek a complete split stunned Arthur Andersen.

George Snaheen, AC's world managing partner, announced before Christmas that partners had voted to take the dispute to arbitration at the International Chambers of Commerce in Paris. He was seeking complete freedom for AC from all contractual obligations to AA and AW.

The 50-page claim soon arrived at AA, with 250 pages of evidence. AC alleged breach of contract leading to "irreconcilable differences" between the firms and accused AA of planning a "dramatic expansion" in its own consulting business.

What next? The ICC's International Court of Arbitration allows 30 days for a response but the timetable is flexible. Lawyers argue that AA may claim an extension. The court, which has dealt with 8,000 claims since it was set up in 1923, can deal with them in about nine months. But lawyers point to a case begun in 1990 which is still running. The case will be heard by a single arbitrator whose decision is binding.

What are the possible endgames if the case goes the distance? The most likely is that AC will walk free, but at a price. At present AC pays around $150m a year in subsidy to AA – the organisation which created it back in 1989. Jim Wadia, global head of AA, went to the fateful San Francisco meeting and offered to freeze the payment at around this figure and give the consultants freedom of governance within AW. The offer was rejected.

Under Andersen's rules, if a firm wants to leave the organisation it has to pay compensation of 1.5 times net revenues – around $11.5bn. This is the most AA could hope for – while around $2bn would perhaps be the least, the amount $150m would service in terms of debt. But AC may be looking to secure freedom for much less. The size of the settlement may also be affected by disputes over rights to the Andersen name and other factors such as software and methodologies.

Lawyers believe the consultants will allege that the organisation has effectively ceased to exist as it no longer functions properly, and that therefore AC should not have to pay anything for freedom.

It has argued that AA broke guidelines agreed under the "Florida Accords" of 1989 – just after AC was created. AA may argue the accords were informal and only applicable to the US.

The most likely endgame is that Andersen Consulting will walk free, but at a price for its freedom

Mr Wadia has told the consultants that AA has rights and it intends to protect them. His problem may be that a full-blooded dispute would simply help the consultants' argument that the organisation cannot function properly. But lawyers say the arbitrator would be alert to any evidence that disharmony had been caused by AC's tactics rather than breach of contract by AA. The length of time AC has been preparing its case may also be an issue.

AA has a tricky strategic decision to make if the dispute drags on. It may feel it has to start expanding its consultancy business in preparation for AC leaving the organisation – in effect doing exactly what the consultants allege it has been doing since the early 1990s.

But there is an equally tricky problem for AC – what if the arbitrator allows it freedom but at too high a price? The AC partners may not relish reduced earnings to pay for freedom, and a flotation may not be the answer – Mr Shaheen denies it is even on the agenda.

Given the pitfalls, there must be a chance that a deal can be struck. A long dispute will damage both parties. The widespread view is that AC's booming revenues give it a window of opportunity in which damage can be sustained. But it must want to continue investment, and the dispute also knocks its reputation for management efficiency. Meanwhile, AA must want to get stuck in to opposition as big mergers transform the sector – it will need money to invest in the short term.

But the entrenched positions look very solid. Bad blood and public anger make a deal difficult to engineer. AC wants freedom at a low price, while AA wants recognition that it helped to build AC from a three-partner unit established in 1954 into a giant of the consultancy sector.

At present the game seems to be heading for stalemate – the worst outcome for all.

Jim Kelly

AMERICAS NEWS DIGEST

NationsBank fails to impress

NationsBank, the third largest US bank with $311bn in assets, announced yesterday it would integrate its acquisition of Barnett Banks, the largest bank in Florida, more slowly than expected.

The news, which accompanied annual results showing a rise in profits of 30 per cent, led to a sharp fall in NationsBank's share price. While the results were broadly in line with expectations, the market appeared to be unnerved by the delay in cost savings from Barnett, and by early afternoon the bank's shares were down $3¾, or 5.61 per cent, at $58⅞.

Net income rose 30 per cent to $3.08bn for the year. However, the heavy issue of stock to finance the $9.7bn acquisition of Missouri-based Boatmen's Bancshares, completed early last year, meant that earnings per share rose only slightly from $4 to $4.27.

The bank still estimates total savings from the $15.5bn acquisition of Barnett at about $900m. These are projected to enhance earnings per share in 1999. However, only $300m in savings will be realised this year, compared with the original estimate of $450bn. The remainder of savings will be made by the middle of next year.

NationsBank said Barnett would be converted to its platform of distribution and retail products only in the last few months of this year. This year it will focus instead on integrating Boatmen's and the rest of the bank's operations in the mid-western states.

NationsBank said cost savings from the Boatmen's acquisition had already helped its efficiency ratio, with administrative costs as a proportion of revenues improving from 55 per cent to 53.8 per cent.

John Authers, New York

■ SOFT DRINKS

PepsiCo to test non-cola brand

PepsiCo, the US soft drinks company, plans to test market a lemon-and-lime drink called Storm in the US this year, introducing a new brand to a category dominated by Coca-Cola's Sprite and Cadbury Schweppes's 7-Up.

The move will intensify competition in the US market for fruit-flavoured non-cola drinks following last month's announcement that Coca-Cola had agreed to buy Orangina, an orange-flavoured fruit juice drink, from France's Pernod Ricard group.

It also comes as Cadbury Schweppes of the UK is revamping its poorly-performing 7-Up brand in the US, giving it a sharper, stronger, lemon-and-lime flavour and new packaging, backing the relaunch with a big advertising campaign.

Other recent moves in the non-cola category include Coca-Cola's launch last year of Surge, a citrus flavoured drink that competes with PepsiCo's Mountain Dew.

PepsiCo already has a lemon-and-lime drink in markets outside the US, where it owns the 7-Up brand. But in the US, where 7-Up is owned by Cadbury Schweppes through its Dr Pepper/Seven Up subsidiary, PepsiCo has had nothing to offer in the category apart from a lemon-and-lime variant of its small Slice brand.

PepsiCo said fruit-flavoured non-cola drinks were one of the fastest growing soft drink categories in the US, and it hoped that a stand-alone lemon-and-lime brand would enable it to build up a bigger share of the market. Testing is expected to take place in several US markets in the spring.

Richard Tomkins, New York

■ HOTELS

Hilton to double Garden Inn chain

Hilton Hotels plans to double the number of mid-priced Hilton Garden Inn hotels to 200 by the year 2000. Hilton, one of the largest hotel companies in the US, entered the market for budget-conscious business travellers in January 1996 with the Garden Inn concept. At that time it planned to have 100 hotels open or in development by 2000, but with booming demand for rooms – which cost $75-$95 a night on average – Hilton reached its target by the end of last year and decided to expand its effort.

Reuters, Beverly Hills

Skanska seeks buyers for forest holdings

By Greg McIvor in Stockholm

Skanska, Sweden's largest construction group, is stepping up its non-core asset *disposal programme by seeking* buyers for its Swedish forest holdings, in a sale estimated to be worth about SKr1bn ($125m).

The company said it had asked Handelsbanken Markets, the investment banking arm of Svenska Handelsbanken, to arrange a valuation of 45,000 hectares of land. This would be a prelude to a sale.

Skanska has been divesting non-core assets to concentrate its operations on *construction and to fund* expansion outside Sweden.

Last year it sold a SKr10bn stake in Sandvik, the Swedish engineering group. A 20 per cent voting stake in SKF, the rolling bearings manufacturer, is also slated for disposal.

Christer Gardell, chief executive of Custos, a Stockholm investment company which is Skanska's largest shareholder, said the withdrawal from forest ownership would "be part of Skan*ska's clarification* programme to get a more focused asset structure".

Custos has been pressing Skanska to accelerate the disposals process. One of the company's directors predicted last month that most of Skanska's investment portfolio – worth an estimated SKr2.3bn – would be sold by the end of 1998.

Mr Gardell is keen for Skanska to cut its property portfolio, which is thought to have a market value of *SKr20bn-SKr25bn.* He suggested this could be achieved by offloading part of the group's managed property holdings, which have a combined rental value of SKr2.4bn.

Skanska said it hoped to sell the forest assets, located in southern Sweden, to one or two buyers. AssiDomän and MoDo, the Swedish forestry groups, had both expressed interest.

The holdings have a book value of SKr320m but are *estimated by forestry ana*lysts to carry a market value of about SKr1bn.

Skanska last year acquired a 7.6 per cent stake in UK rival Costain. Key Skanska investors expect the company to call options covering 40 per cent of the London-quoted group's equity before the end of the decade. This would trigger an outright bid for Costain.

● SCA, the Swedish forestry group, has strengthened its international hygiene paper *operations by acquiring* Marpo, the Spanish tissue company. Marpo, Spain's largest supplier of private label tissue products, has annual sales of about SKr550m. The purchase price was not disclosed but SCA said it had paid about six times operating earnings.

New owners to widen Koor's horizons

A shift of strategy by the Bronfman family puts it into the upper echelons of corporate Israel

Claridge Israel, the investment arm of the Charles Bronfman family of Canada, has a reputation in Israel for making quick profits through short-term investments in *high-growth companies.*

So when it took control last year of Koor Industries, Israel's biggest conglomerate, the business community was a little surprised at the sudden strategic shift.

And as Koor enters the new year under new ownership, it may find itself in transition as well.

"We will be focusing more on higher-growth business and less on lower growth businesses," says Jonathan Kolber, the new deputy chairman of Koor and the president of Claridge Israel. "We're going to be looking [more] at export versus domestic, currency exposure, financing exposure and cyclical trends. We're going to look at a mix of technologies and growth that maximises what we think we can do with Koor."

Claridge will need to adapt its business strategy to Koor, a conglomerate which focuses on telecommunications, agrochemicals and construction and accounts for 7 per cent of Israeli GDP. Koor had net income of $180m on revenues of $2.73bn in the first nine months of 1997, with exports making up 41 per cent of total sales.

Montreal-born Mr Kolber is from a new generation of Israeli businessmen stepping into the upper echelons of *corporate Israel.*

His office is directly across from that of Benjamin Gaon, Koor's veteran chief executive and the man who rescued Koor from near-bankruptcy in 1988, returning it to profitability and to a $120m offering on Wall Street in 1995.

According to Mr Kolber – who is Koor's first outside shareholder to take an active *management role* – the strategic plan Mr Gaon crafted for the company in 1997 is likely to be reformulated and *presented in New York soon.*

"We accept – in very broad strokes – his plan to rid Koor of non-strategic holdings, or what we call redundant assets," says Mr Kolber. "We're going to continue to do that, but I think we will do it a little more aggressively, and with a bit more focus."

While Koor trims the fat – as it did by recently selling *Shemen*, which makes edible oils, for $25m - the new ownership has already moved to strengthen its operations in *electronics and telecoms*, one of Israel's strongest sectors. Since Claridge took the helm, Koor is planning to buy into ECI Telecom, a leading Israeli telecoms manufacturer which had net income of $93m on revenues of $491m in the first nine months of 1997. It may take a controlling stake.

But the planned acquisition of the first 10 per cent of ECI via a share exchange with Claridge was recently postponed pending the release of the company's *results for 1997.* The company will re-evaluate the terms of the deal, since some analysts have said ECI – which generated 19 per cent of its income from Asia in the latest financial year – may be affected by the crisis in that region.

So far, Koor is not considered vulnerable, since it exports mostly to the US and European markets. In any case, if Koor takes control of ECI, it will hold stakes in Israel's three biggest telecoms equipment and electronics manufacturers, as it already controls Telrad and Tadiran. Analysts say the acquisition of ECI could pave the way for a consolidation and rationalisation of *these assets.*

Mr Kolber rebuts arguments that such consolidation would be anti-competitive. He also brushes off the campaign against concentration in the Israeli economy spearheaded by David Tadmor, Israel's antitrust commissioner.

Mr Tadmor is taking a *close look at Koor's 50 per* cent ownership of Mashav, its building and infrastructure arm, since the other half is controlled by Clal Israel, the country's second biggest conglomerate. He plans to force the two to end their joint ownership within four years. Koor is trying to reach agreement with Clal. An antitrust investigation into allegations of a price-*fixing scheme between Tadi*ran and Telrad dating back to 1987 is also under way.

"Israeli companies need to compete in world markets, and the commissioner told us he is in favour of export companies merging if its doesn't hurt the Israeli consumer," says Mr Kolber. "We have to be big to compete globally, or else we're lost."

Avi Machlis and Judy Dempsey

Jonathan Kolber, deputy chairman of Koor (left), is to reformulate plans by Benjamin Gaon, veteran chief executive

EUROPEAN NEWS DIGEST

Seven seek GAN unit sale details

Seven companies, five of them French, have expressed an *interest in buying the state's 67 per cent stake in GAN* unit CIC and applied for details of the proposed disposal, according to officials close to the sale. The French candidates are Banque Nationale de Paris, Société Générale, Crédit Commercial de France, Dexia and Crédit Mutuel. The two foreign banks are ABN Amro of the Netherlands and Generale de Banque.

Firm offers have to be submitted by February 23, according to the sale documents. GAN, the insurer, is also to be sold and arrangements for the privatisation are expected by the end of next month. *AFX News, Paris*

■ PHILIPS

Car systems sale agreed

Philips, the Dutch electronics group, yesterday finalised the Fl 1.4bn ($683m) sale of its car systems business to Mannesmann of Germany. The transaction will be completed *in two steps*, with Mannesmann initially taking 100 per cent of the larger activities of Philips Car Systems in Germany and the US, as well as 65 per cent of the remaining worldwide activities. The balance would be acquired by Mannesmann within two years, Philips said. The group announced plans to sell PCS in October, saying the move fitted with its strategy of focusing on core activities. It *described Mannesmann and PCS as a good fit and said it* would help the division become a leading first-tier supplier to the car industry. *Agencies, Eindhoven*

■ ITALY

HDP completes Valentino buy

HDP, the Italian industrial holding company controlled by some of the country's largest private groups, has completed its $300m acquisition of Valentino, the Italian fashion house. HDP, in which the Fiat automotive group is the largest shareholder with 16 per cent, expects the *acquisition to reinforce its textile and clothing activities* and its efforts to expand in the luxury goods business. Valentino Garavani, the fashion designer, and Giancarlo Giammetti, his business partner, will acquire a 2.4 per cent stake in HDP for $35m as part of the deal. Mr Giammetti will also join the HDP board. *Paul Betts, Milan*

■ DEUTSCHE TELECOM

Newspaper predicts lower profits

Deutsche Telekom has refused to comment on a newspaper report that its profits for last year would be significantly lower than expected. A report in Welt am Sonntag said 1997 profits would be below DM4bn ($2.2bn), compared with expectations of DM5.5bn.

The newspaper said the shortfall came from an overspend on the purchasing of materials and services, the loss of big business customers, missed cost-saving targets through job reductions, over-optimistic valuation of company property in eastern Germany, squeezed profit margins in the mobile phone business due to increased competition and excessive spending on consultants. Deutsche Telekom yesterday faced stiff criticism of the charges it levies on customers wishing to change to rival telephone companies following the liberalisation of the German telecoms market at the start of the year.

Frederick Stüdemann, Berlin

COMPANIES AND FINANCE: EUROPE

Hagemeyer upbeat on Asia-Pacific

By Gordon Cramb in Amsterdam

Hagemeyer expects to show an increase in profits from Asia-Pacific for last year and in 1998 in spite of regional economic upheavals, according to Andrew Land, chairman of the Dutch trading company.

The improved result was made possible by recent acquisitions which would this year bring revenues from Asia to 23 per cent of the group total, from a previous 15 per cent. Sales worldwide were on course to rise by at least Fl 4bn ($1.95bn), after a year in which the company broke through the Fl 10bn barrier.

The group intends to buy back a quarter of the 40 per cent stake in Hagemeyer which First Pacific, the Indonesia-controlled Hong Kong conglomerate, announced this weekend it was to sell.

In the biggest international equity offering scheduled for an Amsterdam listed company this year, First Pacific's Fl 3.3bn holding is to be placed by the end of March. Hagemeyer shares yesterday slipped Fl 2 to Fl 79, against a 2.4 per cent decline in the AEX index of 25 leading issues.

ING Barings and UBS are to form the core of a syndicate of banks acting for First Pacific. Hagemeyer is being advised by ABN Amro, which is assessing a plan for the company to repurchase about 10 per cent of its equity.

Hagemeyer had strongly outperformed the market until recent months, with the stock peaking last year at Fl 122. Last year it expanded its issued capital by some 13 per cent, including the issue of 4.89m shares to First Pacific. This was in return for the takeover of Tech Pacific, an Australia-based regional distributor of telecommunications and computer products with annual sales of Fl 2.5bn.

A further 7m shares were placed in September at Fl 106.50, largely to fund the purchase of Asea Skandia, a supplier of electrical materials in north-west Europe, from the Swiss-Swedish Asea Brown Boveri. A year ago the company moved to full control of HCL, a Hong Kong based electronics group.

Europe would account for 57 per cent of Hagemeyer's sales this year, said Mr Land. A main goal would be to increase from 20 per cent its exposure to the Americas, which was "not as heavy as we would like it to be".

Within the Netherlands he is interested in a merger with the paper merchanting and office products division of KNP BT.

Hagemeyer expects earnings per share for last year to emerge at least 15 per cent above the Fl 6.72 in 1996, and to sustain that growth in the current year.

Adidas pledges to limit job losses

By David Owen in Paris

Robert Louis-Dreyfus yesterday pledged that the FFr8bn ($1.3bn) acquisition of Salomon, the French ski and golf equipment company, by Adidas, the German sportswear group of which he is chairman, would lead to no significant job losses.

He made the promise on the eve of Adidas's public offer for the Salomon shares it does not already own. The offer – of FFr521.50 a share – is scheduled to run until February 9.

Adidas already owns 39 per cent of the French group's capital and 56 per cent of voting rights following the acquisition of the Salomon family holding company in December.

Mr Louis-Dreyfus acknowledged that the deal – at more than 37 times Salomon's net profit per share for the year to March 31 1997 – was "fully priced and even a bit more".

Robert Louis-Dreyfus: Salomon takeover deal 'fully priced'

He also admitted the transaction would mean a drop in earnings growth in 1998. However, this would remain in the region of 20 per cent and should rise to more than 20 per cent the following year.

The companies hope to exploit Adidas's expertise in sportswear in fields such as skiing and golf, where Salomon has a strong reputation as an equipment supplier.

Mr Louis-Dreyfus also believes Adidas can benefit from Salomon's focus on research and development.

The deal will make Adidas the world's second biggest sports goods manufacturer after Nike of the US.

Under Mr Louis-Dreyfus's leadership, Adidas has adopted a more aggressive marketing strategy to match rivals Nike and Reebok.

The company went public with a DM2.1bn ($1.2bn) share issue in 1995.

EUROPEAN NEWS DIGEST

Lindt & Sprungli buys Ghirardelli

Lindt & Sprüngli, one of Europe's oldest chocolate manufacturers, has become the second biggest producer of high quality chocolate in the US by acquiring San Francisco's Ghirardelli Chocolate Company. Ghirardelli was founded in 1852, six years after Lindt & Sprüngli, employs 500, and has annual sales of $100m.

The announcement of Lindt & Sprüngli's expansion in the US, where it wants to be market leader in the niche quality chocolate market, overshadowed a warning that its 1997 profits would be lower than expected. Group sales rose 5.1 per cent, to SFr1bn ($677m), primarily because of a drop in sales in France and Germany, two of its three biggest markets. It blamed "generally conservative consumer moods and above-average temperatures" in the second half of 1997.

Increased marketing costs and a one-time charge for the transfer of production from Chur to Kilchberg in Switzerland led to a weaker operating profit margin. In a bid to reduce its dependence on the Swiss, German and French markets, which take 70 per cent of its output, Lindt & Sprüngli has been expanding rapidly in the US by opening its own retail outlets. Following the acquisition of Ghirardelli, it will rank second in the market alongside Godiva but behind See's Candies. *William Hall, Zurich*

■ BANKING

Komercni Banka raises provisions

Komercni Banka, the Czech Republic's biggest bank, yesterday said it would make Kč3.5bn ($97.58m) of new provisions in its 1997 accounts, but it still expected to make a profit. The bank, which is 48.7 per cent state-owned but set for full privatisation, said a revaluation of real estate properties used as collateral for loans had shown the need for Kč10.5bn of additional provisions. It said it would cover this by taking Kč7bn from existing provisions for general banking risk and by creating Kč3.5bn of new provisions.

As of September 30 1997, Komercni had Kč18.6bn of provisions to cover overdue loans. However, no interest had been paid for more than a year on Kč55bn of them. Under western banking regulations these loans would have to be fully provisioned against, but Czech regulations allow banks to subtract collateral from their provisioning requirements.

Net profits fell 68 per cent in the first nine months of last year to Kč1.82bn and it made Kč4.8bn of new provisions. In 1996 it made full-year profits of Kč5.36bn after creating reserves and provisions for loan losses of Kč5.93bn. *Robert Anderson, Prague*

■ STEEL INDUSTRY

VSZ takes stake in DAM

VSZ, the Slovak steel group, has paid a nominal $1 for 68.15 per cent of the troubled Hungarian state-owned steelmaker DAM. VSZ paid another $1 for DAM's Ft2.8m debt to the Hungarian state privatisation company APV. The Slovak company has agreed to make a capital injection of Ft4.5bn ($21.8m) in three steps, comprising an immediate payment of Ft2bn, another Ft1bn within 180 days and a final Ft1.5bn within 15 months. APV will inject an equal sum in fresh capital at the same time as the VSZ payments. *Kester Eddy, Budapest*

■ POLAND

BRE reports record profit

Poland's Export Development Bank (BRE), which is 48 per cent owned by Commerzbank of Germany, has reported a record 146.3m zlotys ($41m) net profit for last year – a 27.5 per cent increase on its 1996 net earnings.

The result came on 54 per cent growth in the bank's balance sheet to 6.3bn zlotys and a 72 per cent rise in deposits, while lending to clients rose 44 per cent. The slower lending rate and a doubling of the bank's capital to 815m zlotys saw BRE's capital adequacy ratio grow from 12 per cent in 1996 to 15.5 per cent at the end of last year. Commercial and investment banking activities now account for the bulk of its earnings.

■ ALCATEL ALSTHOM

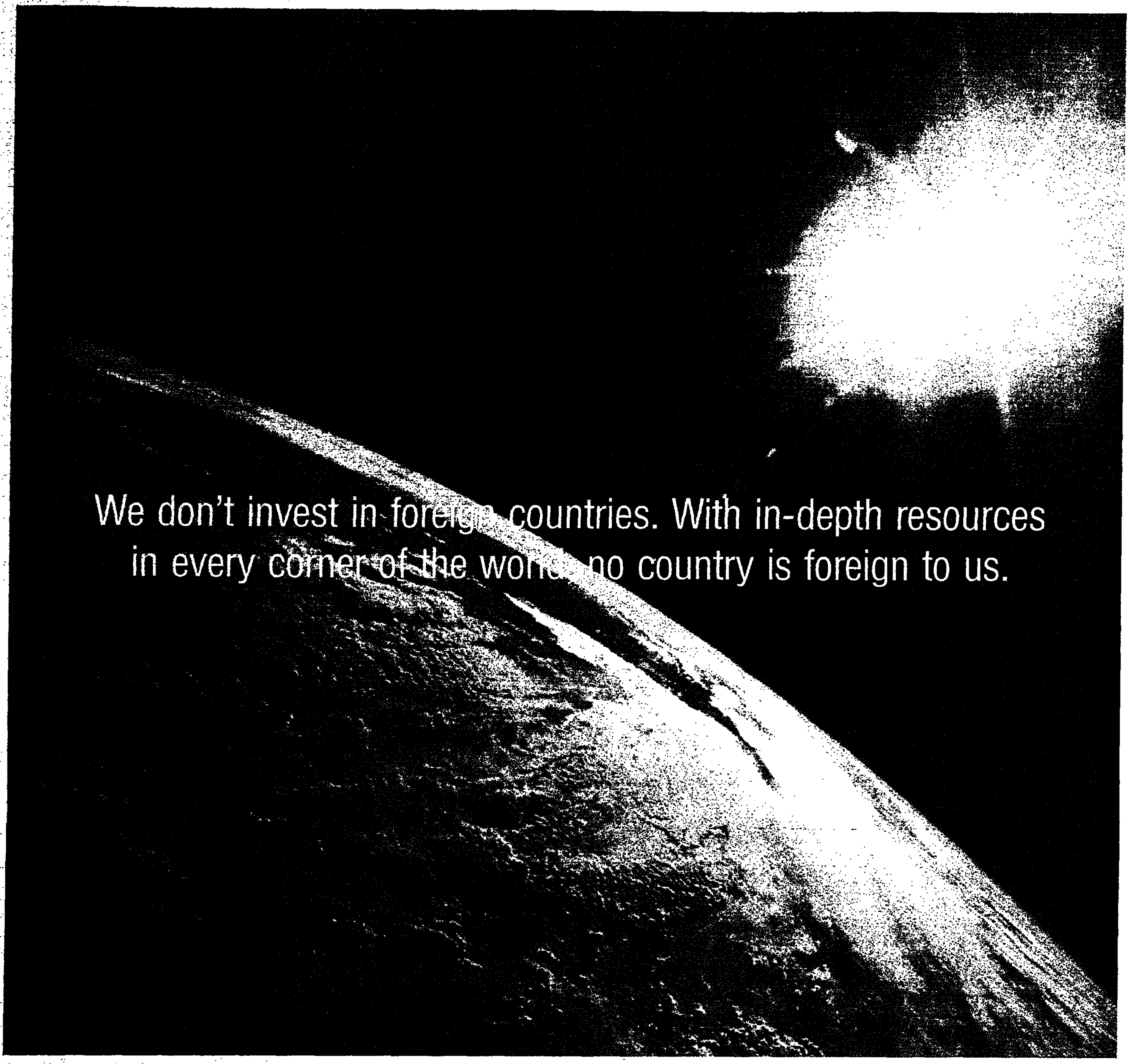
Stake raised in joint venture

French engineering group Alcatel Alsthom said yesterday it had bought a 49 per cent stake held by Sprint Corp of the US in their joint venture company, Alcatel Data Networks. No value was given for the deal. Alcatel Data Networks specialises in data transmission and cellular technology and was created by Alcatel and Sprint in 1993. *Reuters, Paris*

■ IMPORT INSPECTION

Ivory Coast renews SGS contract

Société Générale de Surveillance, the world's biggest testing and inspection company, has had its import inspection contract renewed by the government of the Ivory Coast for another two years. It is the third new contract for SGS in the last month and suggests foreign governments have not lost faith in the company in spite of its recent admission that it paid a substantial fee to a Geneva lawyer to start up a pre-shipment inspection programme for the Pakistan government. SGS lost that contract last year following a change of government. Last month Tanzania awarded SGS an exclusive mandate to check all goods entering the country and the Cameroon government also renewed its contract with SGS. SGS shares were one of the worst performers on the Swiss stock exchange last year and have continued to fall this year because of concerns about the company's exposure in Asia. *William Hall*



As never before, successful asset management requires global reach and local knowledge.

Indeed, in today's markets, global and local are inseparable. Global management necessitates on-the-ground knowledge of local opportunities. Local investment requires an intensive understanding of global economic and market trends. Both must be delivered through a single, disciplined investment process.

At Dresdner RCM Global Investors, our extensive global infrastructure of investment, client service and operations professionals is strategically positioned in every corner of the world. With our rigorous investment processes and innovative resources—such as our global Grassroots™ research network of over 37,000 industry contacts—we're able to respond to the needs of some of the world's most discerning clients. The focus? *Superior performance and customised, value-added solutions.*

With our strong culture and heritage, Dresdner RCM Global Investors stands at the forefront of global investment in countries all around the world. After all, they're countries we call home.

Dresdner RCM Global Investors.

Worldwide. Worldwise.

Dresdner RCM Global Investors

Issued by Dresdner RCM Global Investors (UK) Ltd., regulated by IMRO. Member of the Dresdner Asset Management Marketing Group. Member of the Dresdner Bank Group.

Deutsche Bank acquires Baillieu

By Gwen Robinson in Sydney

Deutsche Bank has acquired the business of EL & C Baillieu, one of Australia's oldest corporate finance and stock-broking companies, for an undisclosed sum, the German bank said yesterday.

The acquisition is the latest sign of growing interest among leading off-shore banks in Australia's broking and investment banking industry. It follows last month's purchase by the Dutch bank ABN Amro of BZW's Australian and New Zealand operations for A$116m (US$75m) and, before that, the acquisition of the Australian broker Rivkin Croll Smith by Toronto-Dominion Bank and Merrill Lynch's merger of its Australian operations with McIntosh Securities.

Klaus Albrecht, chief executive of Deutsche Bank Group in Australia, predicted there would be further mergers and acquisitions in Australia's finance sector amid growing competition and rationalisation. Other leading international investment banks were examining potential candidates for acquisition, he said. "This rationalisation will go on, and I would not be surprised if that included some of the investment houses in London and New York looking at Australia."

Deutsche Bank, however, was not planning further acquisitions in Australia. The German bank would remain in the wholesale banking business and financial markets there, and was unlikely to expand into retail banking, Mr Albrecht added. The acquisition of the 109-year-old Melbourne-based broker would enhance Deutsche Bank's corporate finance presence in Australia and strengthen its service offering investment and corporate banking to large Australian corporations, he said.

Clive Smith, chief executive of Baillieu, will become deputy chairman of DMG Australia. Mr Smith said the deal would meet the growing needs of clients for "ready access to the international capital markets".

The acquisition will involve the integration of Baillieu's corporate finance team into Deutsche Morgan Grenfell, the German bank's investment banking arm. Initially, Deutsche Bank had planned to integrate Baillieu's stockbroking arm into its Australian operations. However, Mr Albrecht said this would have entailed significant "loss of jobs".

Baillieu's existing stock-broking business will be conducted under the ownership of its executives and under its original name.

However, the two companies share many blue-chip clients and are likely to co-operate closely, said analysts.

WorldCom eyes entry into Japanese market

By Michiyo Nakamoto in Tokyo

WorldCom, the fast-expanding US telecoms operator, is considering entering the Japanese market when rules restricting foreign ownership of telecoms carriers are lifted this year.

WorldCom, which last year won a hotly contested battle for MCI, the US long-distance operator, is expected to launch domestic and international phone services for corporate users by building its own fibre-optic facilities. Such a move would be the first entry for a foreign carrier into Japan's Y13,400bn ($102bn) domestic market, one of the largest in the world.

The company would not confirm the plans to enter the Japanese market. However, Takehiro Ikeuchi, president of WorldCom Japan, said: "There is no foreign telecoms operator foolish enough not to consider entering such a big market."

Liberalisation by the Japanese government is expected to attract foreign telecoms carriers looking to take a slice of the lucrative Japanese market. In particular, the deregulation of simple international resale unveiled last month and the lifting of restrictions on foreign ownership of Type One telecoms carriers which own their own networks, are expected to accelerate foreign inroads into the Japanese market.

With the liberalisation of international simple resale, a US carrier could set up a Japanese arm, lease an international line across the Pacific and connect its network in the US with its Japanese network. By doing so it should be able to bypass the Japanese link of the international line and the settlement charges it pays to the Japanese side.

Waiver hits shares in Malay groups

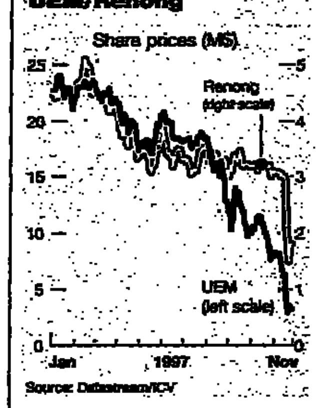
By Sheila McNulty in Kuala Lumpur

Malaysian investors abandoned the shares of the politically well-connected companies Renong and UEM yesterday after authorities granted them special privileges which analysts said demonstrated the government's lack of commitment to institutional regulations and transparent corporate governance.

The sell-off was so swift that the authorities announced within a minute of trading that they were suspending the companies' shares until Wednesday "to allow time for investors to digest the announcement on the latest development". In the 60 seconds before the suspension was announced, UEM plunged 30 per cent to M$2.27 and Renong slid 28 per cent to M$1.30.

"The bottom just fell out of the share prices," said Jonathan Duckett, analyst at Paribas Asia Equity. That weighed on investor sentiment enough to result in a

UEM/Renong



Source: Datastream/ICV

2.85 per cent drop in the benchmark Composite Index to 477.57 points by the end of trading.

Malaysian authorities reaffirmed at the weekend a waiver granted to UEM which excuses the road toll company from having to make a general offer for the remaining shares of its parent Renong. Regulations required the offer after UEM purchased a 32.6 per cent stake in the ailing Renong.

Investors abandoned the shares when the waiver was first announced in November, leading Anwar Ibrahim, finance minister and deputy prime minister, to revoke it. Authorities had been considering the matter ever since.

The UEM deal, for which it had to borrow M$2.4bn (US$521m), was seen as a politically sanctioned and forced bailout of a heavily indebted parent company by its subsidiary.

Renong is in effect controlled by the United Malays National Organisation, the nation's dominant political party.

ASIA-PACIFIC NEWS DIGEST

Nalco set for profits advance

National Aluminium Company, India's largest aluminium group, will raise net profits to well over Rs6bn ($151m) in the year to end-March compared with Rs5.02bn last year, according to analysts. The group lifted net profits 17 per cent to Rs2.425bn in the first half.

UBS Securities (India) said Nalco would earn net profits of nearly Rs6.2bn in the current year, lifting earnings per share from Rs3.82 a year earlier to Rs4.80. According to UTI Securities, profits will jump to Rs6.77bn.

S.N. Johri, chairman, said: "There is no reason why Nalco should not once again be earning net profits of over Rs6bn. The 1995-96 profits were Rs6.15bn. We are raising metal production by about 7,000 tonnes to 210,000 tonnes. Our alumina production will be up 63,000 tonnes to 870,000 tonnes. We are among the world's lowest-cost producers of alumina and our cost of production of the metal is nearly $125 a tonne lower than the world average."

According to Mr Johri: "The group is the country's largest exporter of alumina and aluminium and it stands to benefit from the recent sharp fall in the value of Indian currency. At the same time, the fall in the value of rupee and the raising of customs duty on aluminium ingots to 22 per cent from 10 per cent have made the task of selling the metal in the domestic market easier. Like last time, Nalco will be closing the current year with negligible stocks of the metal."

Mr Johri said the group was awaiting the final set of government approvals for raising the smelter capacity by 115,000 tonnes to 345,000 tonnes and coal-fired power generation capacity by 120MW to 840MW on an investment of nearly Rs21bn. Nalco is implementing a Rs16.65bn project to double the bauxite mining capacity to 4.8m tonnes and raise the alumina refinery capacity to 1.575m tonnes from 800,000 tonnes.

Kunal Bose, Calcutta

■ SINGAPORE

Banks plan merger

Keppel Bank and Tat Lee Bank, two small independent Singapore banks, announced yesterday a proposal to merge, in what analysts said was an effort to form one large, strong financial institution that could compete regionally.

The banks said the Monetary Authority of Singapore had approved the planned merger, which would bring combined shareholders' funds to S$3bn (US$1bn). Total assets of the combined group would exceed S$33bn.

The banks are involved in similar activities and both have finance companies as well as insurance and stock-broking businesses. Analysts said the authorities had been encouraging a consolidation of the banking sector to strengthen it as part of a long-term strategy to boost global competitiveness.

Sheila McNulty, Kuala Lumpur

■ SHIPPING

Cosco to combine units

China Ocean Shipping Company (Cosco) is to merge two units – Cosco Bulk Carrier and Tianjin Ocean Shipping – to form a bulk carrier with assets of Yn20bn ($1.5bn). The company will be based in the northern port city of Tianjin and employ 11,000.

The merger is part of Cosco's efforts to concentrate on specific areas of business in leading Chinese port cities. The company said the next step would be an equity restructuring which was likely to involve a public stock listing.

Dow Jones, Beijing

■ PROPERTY

Metro Pacific to raise 14bn pesos

Metro Pacific, the Philippine property arm of Hong Kong-based First Pacific, said its board approved in principal a plan to raise 14bn pesos ($194m) through a rights issue within the first half of the year.

In a notice to the Philippine Stock Exchange, it said proceeds would be used to retire a "significant portion" of the debt of First Pacific and fund the capital spending programme of its Smart Communications unit. Metro Pacific said First Pacific gave its "full support" to the issue and declared "its willingness to subscribe to its proportional share of any such issue". First Pacific was also willing to take up the full issue if other shareholders refused to join the offer, it said.

The terms will be determined by the management and underwriters, which have yet to be chosen by the company.

AFX-Asia, Manila

A letter from R. W. 'Tiny' Rowland

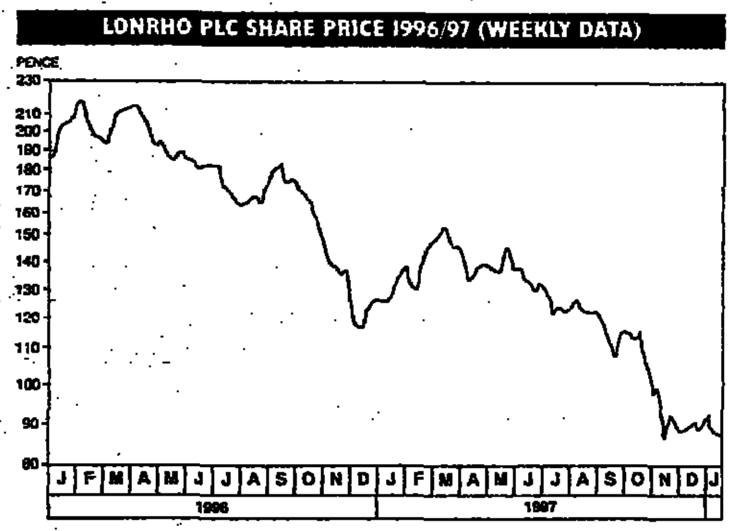
LONRHO-JCI

How to value Lonrho shares in 1998

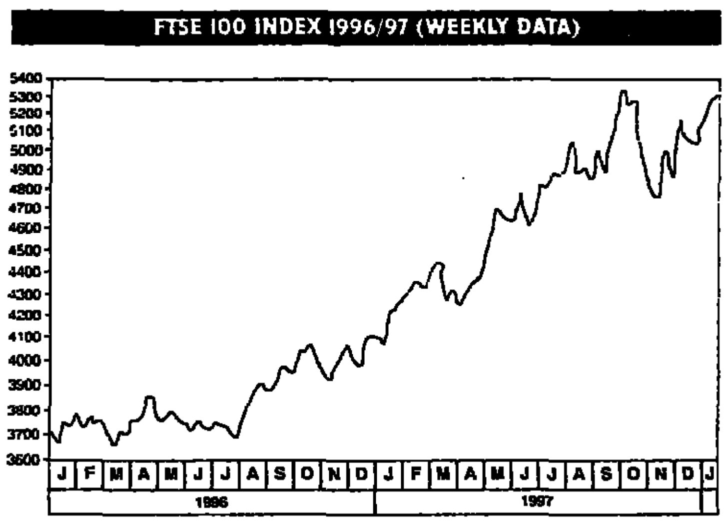
Lonrho will shortly present the results for the past year to the financial press. Lonrho's share price has under performed the FTSE-100 Index by more than 80% over the last 2 years. Lonrho is out of the Footsie-100 and today close to leaving the FTSE-250 Index.

LONRHO/FTSE CHARTS

LONRHO PLC SHARE PRICE 1996/97 (WEEKLY DATA)



FTSE 100 INDEX 1996/97 (WEEKLY DATA)



Dear Lonrho shareholder,

Welcome to the second division. Poor performance - not the result of external factors but of management - must be the herald of fundamental change at board level, where the decisions were taken under chairman Sir John Craven and finance director Robin Whitten. Sir John Craven advised Lonrho when he was at Deutsche Morgan Grenfell and Robin Whitten was previously finance director of Slater Walker at the time of its collapse.

When I left Lonrho, the new board acknowledged that 'the magnificent legacy we enjoy today' was owed to my 'energy and vision' in starting or bringing in every one of the group's 800 companies worldwide (excepting Tiny Tariff). We went from £200,000 to a billion plus company. Today my shareholdings are far larger than the total shares held by the Lonrho board, and I feel free to put informed views before my fellow shareholders who are now repeatedly asked to ratify decisions which have, so far, led the company down the other side of the asset mountain, destination unknown. Looking at ill-advised moves during 1997, Lonrho:

- continued to divest itself of investments producing earnings outside the sensitive African continent,
- undermined any 'Lonrho Africa' flotation by deciding to sell Lonrho Sugar, the best and by far the largest part of the original proposal,
- trapped the company for fifteen months in exclusive but dead-end negotiations over Lonrho's Princess Hotels,
- entangled itself in a series of proposals and counter-proposals from the enfeebled South Africa mining house of JCI,
- failed to inform shareholders about changes in the company's strategy and policy.

For performance versus promise, consider the stream of public announcements made by Lonrho's board during the past 3 years and their failure to reach any objectives:

FORECAST	REALITY
Lonrho to demerge into mining, hotels and trading, to establish the real value of Lonrho's assets at up to 275p per share.	Analysts revise potential share value to 175-200p after destruction of shareholder value.
Lonrho to demerge mining assets.	Lonrho offered its best mine (LPD) to its junior partner, Gencor, on very poor *terms for Lonrho.*
Lonrho to float two hotel chains for £700-£800 million. Heavy publicity given to the launch and to Lonrho appointees.	Lonrho sold the Metropole chain (with its excellent Sterling cash flow) for a loss of £87 million in book value. Stakis, the buyer, announced in November a 92% profit boost owed mainly to the acquisition of the Metropole Hotels.[1]
Lonrho to demerge African trading assets. (Jan '97)	Lonrho instead considered asset sales, *then sold off key asset Lonrho Sugar to* Illovo jeopardising a 'Lonrho Africa' flotation. Illovo directors hailed the deal as their best ever.
Lonrho to sell the Princess hotels within weeks to Prince Alwaleed at levels of £300 million. (Jan '97)	In August '96, at the time of the hotel hype SBC Warburg valued the Princess Hotels at £361 million for Lonrho. Last month Lonrho shareholders had to read in the press that the Princess deal, after no less *than 15 months of negotiations at* £220-£250 million[2], had been called off by the Prince.
Newly appointed Chairman Sir John Craven publicly promises to take into account all shareholder interests and to guide Lonrho's board in the process of shareholder value creation.	Lonrho's share price has lost 40% since his appointment. He has made no policy statement nor explained the collapse of the share price (see chart). Some of his board colleagues have tried to merge with JCI, itself a financial disaster area.
Lonrho to buy the Tavistock coal assets from JCI at the end of September '97 for Rand 1.7 billion.	Having seen the share price plunge by 15% after this announcement, Lonrho's board and their advisers DMG reportedly 'panicked'.[3] One influential Lonrho board member has a clear conflict of interest and many investors and analysts question the merit of the deal.
Lonrho to appoint strong financial figures to the board, who will represent all shareholders' interests.	There is no sign of any such thing. Sir John Craven had standing when he was at DMG but has had a negative impact at Lonrho. He came in at 155p last March – today 85p.

[1]Reuters, 4 December 1997
[2]The Observer, 21 September 1997
[3]Financial Times, 3 January 1998
[4]Financial Times, 29 November 1997
[5]Financial Times, 29 November 1997.

JCI - TAVISTOCK - LONRHO

Bearing in mind the demonstrable shortcomings of Lonrho's decision making, can shareholders believe that any variant of the proposed JCI - Lonrho structure will address the problems that our company has, or offer hope for the financial future?

'Lonrho executive director Terence Wilkinson comments from London: "I guess we'll wait a few days and then get in touch with Vaughan Bray. We did make an offer to JCI last month to which we have not really had a reply. As far as we are concerned that offer remains on the table."'

SA FINANCIAL MAIL, 9 JANUARY 1998

The present outline is that Lonrho would make an offer for JCI which would result, it is said, in more or less buying in a controlling stake of 27% in Lonrho. JCI, however, does not own the Lonrho shares yet. They are going to swap their only two good gold mines for the shares and this deal will assist Anglo-American to disinvest from Lonrho - thereby satisfying the requirements of the European Commission - and also to bury the enormous hit Anglo took on their purchases of Lonrho shares. So far they have lost about 150 million Sterling.

We as Lonrho shareholders are to buy something which has not yet been bought, from JCI which is itself in the utmost state of turmoil, and whose directors have detached their new chairman from executive duties reportedly because he had not conformed to the concept of corporate governance prevailing on the Johannesburg Stock Exchange. That chairman, Mzi Khumalo, is said to expect to join the Lonrho board in the event of a merger.

A very marked problem, as I see it, is that the Lonrho offer is reportedly for £300 million plus new issued shares. Any issue of new shares makes a mockery of the idea of 'buying-in' shares in the first place, and cancels any positive effect it might have on shareholder value. Neither the directors of Lonrho nor the directors of JCI have found it necessary to explain the contradictions. Mr Khumalo has deferred his obligations and said "my first report... as executive chairman, will not be incorporated into the Annual Report of the Company"! From what he has to say, the future of JCI itself is both confused and confusing.

"JCI's options range from a total break-up to reconstruction of all the assets under a new management team minus Khumalo and former partner Brett Kebble. It is difficult to envisage a future role for Khumalo, who has suffered a palace revolt by his senior executives and been effectively reprimanded by his board over the SMC deal"

SA FINANCIAL MAIL, 9 JANUARY 1998

Yet another Lonrho-JCI entanglement of questionable merit is the plan for Lonrho to buy Tavistock Coal for cash from our new friends. Lonrho must be in love with JCI. How depressing it is for shareholders to see all the company assets in Europe and the United Kingdom sold, and as their only reward from all the promises that have been made, watch most of the money raised sunk into another coal mine is South Africa while the dividends shrink. Can this be what all the 'restructuring' and 'de-merging' was for, and is this the long-awaited birth of the collective brain-child of Deutsche Morgan Grenfell and our board?

On closer examination, the logic for Lonrho to merge with JCI looks both theoretical and unstable. In my opinion, it will drag the share price down and tip the asset and management balance far too heavily to South Africa. Lonrho shareholders and investors should remember the danger of endorsing the appointment of anyone connected with Anglo-American to the Lonrho main board, bringing the influence of that elephant sized company to Lonrho's best assets: Lonrho Platinum and the Ashanti holding. The European Union may have ruled Anglo's stake in Lonrho out of order - but Anglo has lost more than a billion Rand investing in Lonrho, and won't walk away. Anglo invented JCI, owned JCI, ran JCI, and their nominee to the JCI board has now stepped into Mr Khumalo's warm boots.

The outcome for JCI, with investors (including the unions, who are sizeable shareholders) reportedly furious over the terms and information on the 'shares for mines' swaps, is not certain.

"If Saflife wants to block the sale of the gold mines to Anglogold it should be able to. No date has yet been set for the shareholders' meeting."

SA FINANCIAL MAIL, 9 JANUARY 1998

Anglo is back seat driving at JCI, but unable to vote its official 17.9% at the EGM where the decision to part with JCI's best gold mines in order to receive a controlling stake in Lonrho from Anglo (the present owner), must be ratified by JCI shareholders.

"Market sources indicate Saflife will also take a hard line on the terms of any Lonrho merger. Lonrho is out to acquire JCI on bargain terms and must bump heads with Saflife's executives, who want their money back out of the disastrous JCI investment."

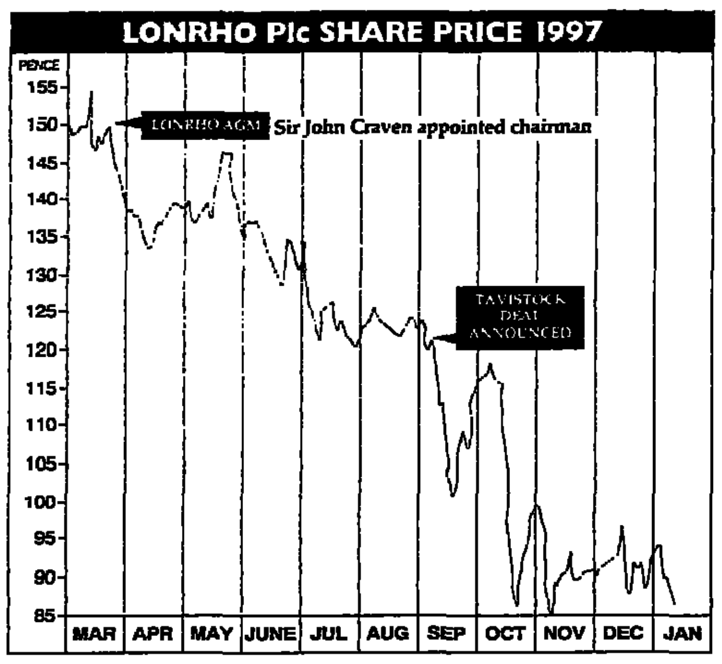
SA FINANCIAL MAIL, 9 JANUARY 1998

- As in so many recent cases Lonrho's board has started at the wrong end of the deal. Premature announcements and publicity come first, results for Lonrho shareholders are secondary.
- Will Lonrho's new chairman, Sir John Craven, put his name behind the Lonrho/JCI merger and convince Lonrho shareholders of the logic in putting the proceeds of asset sales that have gutted the company into coal mines in South Africa?
- Lonrho's board is talking about offering equity as part of a bid for JCI. The only reason given for the JCI deal is to buy back Lonrho's shares. Offering new shares would dilute the intention, leaving only a questionable JCI deal in which Lonrho would buy coal and Anglo's leftovers for an overvalue.

SHAREHOLDER VALUE

At Lonrho's last EGM shareholders recall their chairman Sir John Craven saying that he would do his best to create shareholder value, advising and leading the Lonrho team to do so. Will he comment on his performance as manifested in the chart of the Lonrho share price.

LONRHO Plc SHARE PRICE 1997



**While Sir John Craven was Chairman at Deutsche Morgan Grenfell, the owners Deutsche Bank had to support DMG with £380 million. While he has been chairman of Lonrho shareholders have seen £480 million wiped off the value of their company.*

CONFLICT OF INTEREST

A strong protagonist of JCI on our board is Mr Wilkinson, the managing director of Lonrho S.A., who has now moved to London.

'Wilkinson is understood to be strongly in favour of a JCI/Lonrho merger and is earmarked to be CEO of the merged group.'

SA FINANCIAL MAIL, 18 JULY 1997

'It was believed at first that Nairn (JCI's ex-CEO) left because of Khumalo's actions in dealing behind the backs of the JCI board; it now seems he was forced to clear the way for (Terence) Wilkinson to take over as CEO when the Lonrho merger went through.'

SA FINANCIAL MAIL, 5 DECEMBER 1997

'However, Khumalo suggested that Lonrho SA chairman Terence Wilkinson could step in as CEO of the merged JCI-Lonrho company.'

SA BUSINESS DAY, 15 DECEMBER 1997

'Khumalo has said that as soon as a merger with Lonrho was effected, he envisaged Terence Wilkinson becoming CE and himself moving into a non-executive position.'

SA SUNDAY TIMES, 21 DECEMBER 1997

Terence Wilkinson has pestered Lonrho for a Lonrho-JCI merger and subsequently for an overvalued coal deal with JCI.

- Will the Chairman assure Lonrho shareholders that Terence Wilkinson, given his clear conflict of interest in the JCI matter, will not be allowed to participate in negotiations with JCI or be allowed any vote on these matters? His ability to discharge his fiduciary duties to all Lonrho shareholders is more than in doubt if he is allowed to do so.

PRINCESS HOTELS

Just a short reminder of those promises:

'The announcement of our intention to float Lonrho's Princess and the Metropole operations is further evidence of our efforts to enhance shareholder value. Market conditions are currently attractive for the sale of hotel assets and the Board believes that the flotation of Princess Metropole will be beneficial to shareholders of Lonrho.'

SIR JOHN LEAHY, THEN CHAIRMAN OF LONRHO.
12 AUGUST 1996, PANMURE GORDON 1/97

'While certain quoted companies will share some of these attributes (list of positive attributes relevant to the valuation) with Princess Metropole, there is no single UK quoted hotel company which encompasses them all...

Because of the importance of Princess to the group, it is also appropriate to look at US hotel valuation benchmarks...

Metropole - 1996 Valuation: £326m, Princess - 1996 Valuation: £361m.'

SBC WARBURG, AUGUST 1996

If press reports[4] were correct, then Lonrho's board, in the 15 months they have let the Prince bargain with them, has managed to lower the value of the Princess Hotels from SBC Warburg's target of £361m to a figure of £230m-£250m. Now that the dealings with the Prince are off, Lonrho's board has hired Deutsche Morgan Grenfell again to find them potential buyers for the Princess hotels. Millions and many millions are flowing out for 'advice' on basic commercial matters.

THE FUTURE

Lonrho's directors have not fulfilled their first duty to shareholders - that of making them money.

Lonrho's board has devastated shareholder value to a point where it is no longer acceptable. Did you know, for example, that Stakis, the small casino company which bought our Metropole Hotels now has a higher market capitalisation than Lonrho?

Everything that could be easily sold has been easily sold at poor prices. We are out of the United Kingdom and out of Europe and our two remaining assets in the Americas, Hondo Oil and the Princess Hotels, have the usual sale sign up.

During the last months, non-performing directors of several UK companies (e.g. Lonrho's non-executive director Stephen Walls at Albert Fisher Plc[5]) have lost their positions or come under immense pressure for their commercial performance.

Our board is being led towards the unattractive JCI merger by South African director Terence Wilkinson, who has no relevant experience outside that country that I know of. My recommendations are:

- That in the light of Lonrho's three years' failure to perform, the board must shed the non-executive directors Walls, Harper, Leahy, and executive director Wilkinson, then review policy and strategy,
- and that any negotiations with the intention to acquire JCI should be brought to an end as soon as possible.

Yours sincerely

Tiny Rowland

R. W. Rowland

P.S. Value by Market Capitalisation –

STAKIS	LONRHO
2 January 1996: £387 million	2 January 1996: £1,367 million
9 January 1998: £716 million	9 January 1998: £675 million

Congratulations Stakis!

12 January 1998

EMI and Sony quit Boosey race

By Alice Rawsthorn and David Blackwell

EMI and Sony, two of the front runners to buy Boosey & Hawkes, the classical music publisher and musical instruments manufacturer, are believed to have dropped out of the bidding.

Carl Fischer, the US music publisher that put Boosey up for sale in May after announcing plans to sell its 45.3 per cent stake, is understood to be keen to still sell the company to a third party.

But the withdrawal of EMI and Sony, two of the world's largest record companies and music publishers, may prompt Fischer to consider alternative proposals. These could include placing the shares on the stock market, or selling them to Boosey itself.

Charles Abry, president of Fischer, refused to comment in New York yesterday on the slow progress of the proposed sale. Richard Holland, Boosey's chief executive, also declined to comment.

Boosey, which owns Rico reeds and Buffet Crampon flutes as well as the publishing rights to prestigious 20th century compositions by Rakhmaninov and Stravinsky, attracted strong interest when it came up for sale.

The company's shares reached a 12-month high of £10.75 in August amid mounting bid speculation. They have since weakened, and slipped by 25p to 775p yesterday, thereby valuing Boosey at £152m.

Sir Colin Southgate, EMI's chairman, made no secret of his hopes of adding Boosey's classical catalogue to EMI's fast-expanding music publishing interests.

After months of attempting to start negotiations with Fischer, EMI is understood to have made an offer for Boosey late last year.

Fischer is believed to have rejected the deal, on the grounds that the price was too low. EMI, which would have sold off Boosey's musical instruments division, is thought to be unlikely to make another offer, unless Fischer is willing to accept a lower price.

Sir Colin, whose appointment as chairman of the Royal Opera House is set to be confirmed today, has formed a joint venture to buy Waterstone's, the UK bookshops, from retail group W.H. Smith with Tim Waterstone, the chain's founder.

Sony also emerged as an early contender to buy Boosey, and spent several months scrutinising the business. But it is believed to have decided last month for strategic reasons against making an offer.

PolyGram, the Dutch entertainment concern which has also been mooted as a possible purchaser for Boosey, declined to comment yesterday.

Other possible bidders are Yamaha or Steinway/Selmer, the musical instrument makers.

Deteriorating relations with Luton airport prompt revised offer

Easyjet bid for Air Holland

By Michael Skapinker, Aerospace Correspondent

EasyJet, the UK low-fares airline, is to submit a bid to acquire Air Holland, the Dutch charter operator, to establish a new hub in Amsterdam.

Stelios Haji-Ioannou, EasyJet's chairman, said he could submit a bid for the privately owned airline today. The move follows a deterioration in EasyJet's relations with London's Luton airport, where most of its operations are based.

Mr Haji-Ioannou, who launched EasyJet in 1995, said last year that he was considering setting up a new base at Amsterdam's Schiphol airport, from which he could operate flights to southern Europe.

He said he was interested in Air Holland's seven Boeing aircraft and its Schiphol take-off and landing slots. Mr Haji-Ioannou said that he submitted a bid to buy Air Holland late last year but it was rejected as being too low. He said that after discussions with the company yesterday, he planned to submit a revised bid.

Mr Haji-Ioannou said he was also discussing co-operation with Air Holland which would not involve acquiring the company. He was interested in using one of Air Holland's Boeing 737s to operate flights from Amsterdam to Nice, Barcelona and Palma, Majorca.

Air Holland has also attracted the interest of Schreiner Aviation, which operates flights for other airlines.

EasyJet was angered last year when Luton excluded the airline from the list of companies bidding to run the airport. Luton expects to name a short-list of two bidders to run the airport in the next few days.

The airport said yesterday that it had complained to the Advertising Standards Authority about advertisements that EasyJet had placed in local newspapers. The advertisements, entitled "Don't let them build the Taj Mahal on your airport", alleged that Luton's development plans were too ambitious and would make it difficult for EasyJet to operate.

John Kingsford, the airport's marketing director, said Luton regretted having to complain to the ASA but it could not accept EasyJet's public allegations. Mr Kingsford said: "We would prefer such things were discussed in private. Our future is together."

Banana venture sees rise at Fyffes

By David Blackwell

A leaner, meaner operation at its Geest joint venture helped Fyffes, the Dublin-based fresh produce group, increase pre-tax profits 11.5 per cent last year.

The first full 12-month contribution from the Geest venture, owned jointly with the Windward Island Banana Development Company, was the main factor behind a I£3.5m ($4.89m) increase in operating profits from associated undertakings to I£15.1m (£13.5m).

Pre-tax profits for the year to October 31 rose to I£54m (I£48.5m). Turnover grew 2 per cent to I£1.46bn (I£1.43bn).

Maxwells

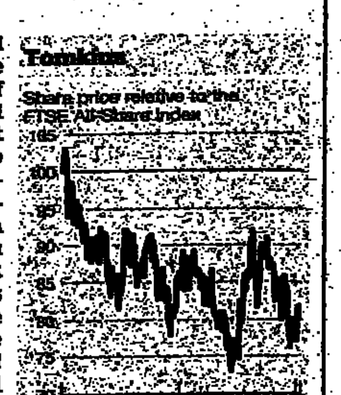
Lasting appeal: Margaret Eustace, an 83-year-old fruit seller, with Neil McCann at the Dublin market where she has been buying fruit for 40 years

David McCann, chief executive, said the sale of Geest's Costa Rican plantation had enabled the business to improve dollar banana purchasing for sale to the European markets. This had offset a shortage of Windward Islands crop for the UK market.

Coming after a fall in first-half profits, the group's final figures were "excellent", said Neil McCann, chairman. Consumption of fruit and vegetables was continuing to increase, and the market place was much better than 12 months ago, when conditions were depressed. "We are feeling very positive about 1998," said David McCamm.

LEX COMMENT

Tomkins



Tomkins may feel aggrieved at the morose reaction to its latest set of figures: the shares dipped more than 3 per cent. But the company's failure to confirm any further tightening of its over-capitalised balance sheet – in addition to the £100m ($163m) share buy-back already announced – was disappointing. Its reticence suggests it has not quite shaken off the antiquated idea that acquisitions need cash on the balance sheet, regardless of its impact on the cost of capital. If decent acquisition opportunities come up after a buy-back, bankers and shareholders will be delighted to stump up the cash. That said, the mini-conversion at the conglomerate – that prompted talk of a re-rating – is still edging forward. The disposal of an array of distribution businesses – and if they do not perform soon, the handgun, bicycle and lawnmower activities too – will leave a portfolio involving broadly similar manufacturing processes. None the less, it remains hard to see where Tomkins' food products fit in. Making and marketing branded consumer goods, such as Mr Kipling's pies and Golden Shred marmalade, must surely require different management skills than those required to produce capital goods such as industrial discs and clutches.

Still, with margins strong, Tomkins continues to produce solid earnings growth. And given that its Asian exposure is low, the management story convincing and dividend yield high, its defensive qualities could erode its substantial discount to the market.

Asian turmoil setback for Barclays sales

By Clay Harris, Banking Correspondent

Barclays yesterday continued its bargain-basement retreat from investment banking, finding a taker for only part of BZW's Asian equities operations.

The disposal to Credit Suisse First Boston has left Barclays, which had decided it could not compete in this area on a global scale, with some unfinished business, but the end is in sight.

Martin Taylor, chief executive, said: "It was a horrible process but it achieved the necessary objective." He added that Barclays had succeeded in the face of scepticism in keeping the businesses together for sale.

Barclays is likely to have realised about £300m ($489m) for the £400m in assets it put up for sale, not counting significant re-organisation costs in London. The bank expects to announce the size of a restructuring provision, as well as 1997 trading results for the former businesses, before reporting annual results on February 17.

Mr Taylor, who was criticised for the way the disposals were handled, said: "Would I do it again? Absolutely. Would we do it the same way? Maybe I'm just stubborn, but I really don't think it would have been possible to do it differently. We weren't helped by the Asian meltdown."

CSFB illustrated its negotiating skills late last year when it bought BZW's European and UK equities and UK corporate advisory businesses for £100m, a discount on the net asset value of £150m. The Swiss-owned investment bank became even more selective in the January sales, helped by the dramatic deterioration in the outlook in Asian markets.

Its shopping basket included few businesses as such: only the Taiwan equities operation and BZW's 70 per cent stake in an equities joint venture in Singapore. Otherwise, CSFB picked up 200 staff in Hong Kong, India, Malaysia and Indonesia and stock exchange seats in Singapore, Hong Kong and Shanghai.

This enabled it to pay an "inconsequential" undisclosed sum, representing a big discount to net assets of £14m at the end of November 1997. It also leaves Barclays with the task of sorting out the unwanted Asian rump and its 500 remaining staff.

The first 75 job losses in Hong Hong were announced yesterday. In Hong Kong, CSFB is taking on BZW staff from investment banking, equities and equity capital markets.

BZW's operations in South Korea, Thailand and the Philippines, which were excluded from the deal, still need to be sorted out, along with the businesses and untransferred staff in India, Malaysia and Singapore.

Barclays sold BZW Australia to ABN Amro, the Dutch bank, at a premium to net assets, reducing to £40m the total discount to net assets on the disposals. But the UK bank also faces up to £80m in costs for closing its Japanese equities business and sorting out the rest of Asia. It is liquidating a derivatives book worth about £120m.

For CSFB, the deal marks another step in its Asia-Pacific expansion. Stephen Stonefield, chairman in the region, said the acquisition increased CSFB's market share and added local execution capacity in Taipei, Shanghai and Singapore.

Goldman Sachs advised Barclays on the disposals.

Servisair shares drop 25% after warning

By Charis Gresser

Shares in Servisair, the aircraft and ground handling company, dropped by a quarter yesterday, as the company warned that profits in 1997 and 1998 would be affected by one-off charges and difficult trading.

Analysts said the fall in the share price from 265p to 200p was more a reflection of a re-rating of the stock than any surprise at yesterday's news.

After underperforming the market by 50 per cent in the last year alone the shares are now back to where they were over two years ago.

One analyst left his forecast of pre-tax profits for 1997 unchanged at £7.5m ($12.2m) before exceptionals, but downgraded his 1998 forecast from £9.8m to £7.5m. He said there was likely to be overcapacity in the air cargo market this year which could affect Servisair's turnover.

Results in 1998 are expected to be cut as it phases out its profit-related pay scheme. Increased pension contributions will also hit profits.

Meanwhile, the company's 1997 results have been damped by mild weather at the tail-end of the year, causing a slight fall in demand for its de-icing services. The company is also taking a £475,000 charge against 1997 profits to settle the accounting treatment of a start-up business.

Servisair also added that one of its main customers, Air UK, was cutting back on a number of routes.

David Cranmer, finance director, said the routes most affected would be flights to Copenhagen, Zurich and Rotterdam, and the turnover potentially at stake was some £1m, although he suggested that Air UK's place could be taken by other airlines.

Directors said that growth may stall in 1998, but the company was still well placed to take advantage of the liberalisation of the airline market. Servisair has built up a 30 per cent share of this market in the UK, which is expected to grow at over 5 per cent a year.

Calpers to invest in new UK fund

By Jane Martinson, Investment Correspondent

Calpers, the largest US public pension fund, is to make a $200m investment in a new fund run by UK Active Value, a shareholder group which targets underperforming companies.

The move is a significant one for corporate governance in the UK as Calpers, which runs the Californian state pension fund, has been credited with leading the increased shareholder activism of the US.

It will also buoy UK Active Value, which started marketing its new fund to US investors a year ago.

Calpers has invested in only one other external activist fund before this, according to Global Proxy Watch, the US newsletter on corporate governance. The group decided to commit $200m, a tiny part of its $126bn fund, at the end of last month.

UK Active Value, headed by Julian Treger and Brian Myerson, intend the new fund to target underperforming companies worth more than £250m.

Since 1993, when UK Active Value was set up, it has tended to target smaller companies including Scholl, the footcare group, Kenwood, the food mixer manufacturer, and Signet, the jewellery retailer. It also took a stake in Hambros, the banking group which eventually sold its investment banking operations at the end of last year.

The fund's use of relatively aggressive methods to increase value has ruffled feathers in the City.

Neither group would comment on the deal yesterday. Calpers indicated an increased interest in the UK stock market last year.

Tomkins resists call on extending buy-back scheme

By Roger Taylor

Greg Hutchings, executive chairman of Tomkins, the bread-to-bicycles manufacturer, yesterday defied calls for a significant extension of its share buy-back programme.

"The stock market pays too much attention to corporate activity and not enough to our success at managing companies," he declared.

He spoke as the shares fell 3 per cent to 300p ($4.83) despite a better-than-expected 27 per cent increase in interim pre-tax profits to £215m (£169m). Investors expressed disappointment at the conglomerate's lack of action on restructuring.

It has been under pressure to increase debt through a share repurchase and to focus on fewer business areas through disposals. Mr Hutchings yesterday disappointed the market on both counts.

He said he preferred to increase debt with bolt-on acquisitions and said the company was looking at opportunities which could lift gearing well over the target level of 15 per cent - a target which implies debt of £300m, compared to net cash of £188m at November 1.

The outstanding £40m of the £100m buy-back announced last year would be completed in the next two months, he said, after which buy-backs would continue as and when appropriate.

Mr Hutchings also made clear that there would be no rapid disposal of the professional, garden and leisure arm, which makes lawnmowers, bikes and Smith & Wesson guns.

Last year the company said the division was under review, raising shareholder hopes that it would be next in line for disposal once current moves to sell the distribution division were complete. But Mr Hutchings said yesterday that the businesses had been given two years to improve financial performance. Only if they failed to come up to scratch by then would they be put on the block.

Group turnover rose 14 per cent to £2.46bn (£2.16bn) for the half year to November 1, helped by the £357m acquisition of Stant Corporation, the US car components maker, in May. All other divisions experienced a fall in sales but improving margins led to higher operating profits.

Earnings per share rose from 8.6p to 10.37p and the interim dividend was increased 14 per cent to 3.5p (3.06p).

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Cammell Laird	6 mths to Oct 31	10.5	(14.6)	1.33	(1.14)	5.2†	(5.9)	1.4	Feb 10	-	-	-
Ellis & Everard	6 mths to Oct 31	364.1	(321.8)	16.5	(15.6)	12.6	(11.7★)	3.5	-	3.3	-	10
Fyffes ♣	Yr to Oct 31 ★	1,460	(1,429)	54	(48.5)	10.51	(8.75)	1.7089	Apr 9	1.3145	2.2805	1.8341
Latchways	6 mths to Sept 30	2.14	(1.94)	0.402♠	(0.649)	3.17	(4.84)	-	-	-	-	-
Mulberry Φ	6 mths to Sept 30	13.8	(13.6)	0.722L	(0.475L)	2.3L	(1.6L)	0.75	Feb 27	0.75	-	1.5
Pace Micro	6 mths to Nov 29	86.9	(117.6)	12.3L♠	(10.2)	5.8L	(3.2)	0.2	Apr 3	0.9	-	2.7
PWS	Yr to Sept 30	10.9	(10.5)	1.07♠	(0.753♠)	2.22	(1.85)	0.45	Apr 6	0.35	0.75	0.65
Savills	6 mths to Oct 31	30.1	(24.1)	4.09	(3.02)	6.8	(5♦)	1.25	Feb 20	1	-	3.5
Tomkins	6 mths to Nov 1	2,458	(2,156)	214.9	(168.8)	10.37	(8.6)	0.44★	Mar 30	3.06	-	11.45★
Triad	6 mths to Sept 30	14.1	(8.35)	2.85	(1.22)	7.53	(3.22)	2	Feb 10	1	-	3

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Merchants	9 mths to Oct 31	-	(-)		(-)		(-)	3.5♦	Feb 20	3.25	-	13.66♦
Tea Plantations	11 mths to Sept 30	115.69	(-)	0.015	(-)	0.19	(-)					

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. †On increased capital. ★Restated. ♣Irish currency. ★Comparatives restated. ΦAim stock. ♦Includes foreign income dividend element. ♦Third interim: makes 10.5p to date.

US companies to buy Forgemasters

By Andrew Edgecliffe-Johnson

Sheffield Forgemasters, the castings group accused and then cleared of producing components for an Iraqi supergun in 1990, is selling its two divisions to US companies.

Allegheny Teledyne, a Pittsburgh-based manufacturer, has offered an undisclosed sum for the aerospace division, which makes shafts for jet engines.

Atchison Casting of Kansas has bid for the engineering business, which specialises in one-off castings weighing up to 400 tonnes for oil exploration and power generation.

This division accounts for about two-thirds of the group's £160m annual turnover, but is thought to be less profitable than aerospace and is expected to fetch a lower price.

INTERNATIONAL PEOPLE

Sievwright leads Merrill in Japan

Merrill Lynch, the global investment bank, has appointed John Sievwright president and chief operating officer of its Japanese operations.

The investment bank said that Sievwright, who is currently head of global financial futures and options, would be working closely with Hisashi Moriya, chairman of Merrill Lynch Japan who in September announced his intention to transfer his day-to-day operating responsibilities.

Moriya is also to take on the additional title of deputy chairman, Merrill Lynch International.

Sievwright will be responsible for all of Merrill Lynch's activities in Japan, including sales and trading, investment banking, asset management and private client services. He will be one of five chief operating officers for the investment bank's international operating regions, posts created last year as part of Merrill Lynch's effort to focus more on its international operations.

Sievwright's appointment comes at a crucial time for Merrill Lynch in Japan and elsewhere in Asia. The turbulence in Asian markets has rocked the confidence of many investors but Merrill Lynch has said that it is still keen to expand in the region.

Sievwright joined Merrill Lynch in 1988 from Bankers Trust, where he was a vice-president and controller of global capital markets. Sievwright also spent two years with Bank of Tokyo in London and five years working for Ernst & Young, the accountancy firm, in Aberdeen, Scotland, and London.

William Lewis, New York

Harris leaves bank to join Pritzker

Ira Harris has resigned as a senior managing director of Lazard Frères, the investment bank, to join the Pritzker Organisation, based in Chicago.

The Pritzker Organisation providers investment banking and fund management services to various Pritzker family interests, including the Hyatt hotel chain.

Harris has been advising the Pritzker family for 30 years. For the past 10 years he had been a senior managing director at Lazard and before that was a senior partner and executive committee member at Salomon Brothers, the investment bank now owned by Travelers Group.

"Ira Harris has been advising us for 30 years and we are delighted that, at long last, we have been able to convince him to join us," said Thomas Pritzker, president and chief executive officer of the Pritzker Organisation.

"He has an enormous number of relationships. In 15 minutes he can save you weeks of due diligence by explaining the key points and where a company is positioned," Pritzker said.

Harris has also formed JI Harris Associates, a company which will provide advisory and consulting services.

William Lewis, New York

Keidanren of Japan appoints Imai

Japan's leading business federation, the Keidanren, is to appoint Takashi Imai, president of Nippon Steel as it new chairman.

Imai, 68, who is to replace Shoichiro Toyoda, the chairman of Toyota, is expected to assume his new role in May when the business federation holds its general meeting. Imai will step down as president of Nippon Steel in order to devote his attention to steering the business federation through one of Japan's longest economic slumps.

The Keidanren, which is an influential business federation, has been faced with several thorny issues, such as the involvement of its corporate members in a series of scandals involving illegal payments to corporate racketeers.

At the same time, Japanese business leaders are pressed with a need to adjust their management practices to a difficult business environment which is forcing a widespread reassesment of the traditional practices of lifetime employment and seniority at blue-chip companies.

Against this background, Imai, who is creditted with turning around Nippon Steel by adopting dramatic restructuring measures, is seen as a promising choice as head the Keidanren.

A graduate of Tokyo University, Imai spent his entire carrier with the world's largest steel company. He joined Fuji Steel, which became Nippon Steel through a merger in 1970, straight out of the university's law department.

He worked his way up the ranks to become president in 1993 and was appointed chairman of the International Iron and Steel Institute in 1995.

Michiyo Nakamoto, Tokyo

Kahn joins Thomson-CSF

Thomson-CSF, the French defence electronics group, has appointed Paul Kahn, a 32-year-old Briton, as business development director in Paris.

Kahn, who has been director of corporate development for the group's UK subsidiary, will be responsible for working out the group's strategic options internationally as the European defence industry seeks to rationalise and restructure itself. He will be part of the strategic planning cell supporting the board.

Kahn, a chartered engineer and MBA, worked for Ford before joining the Ministry of Defence, where he led a team reviewing procurement practices. He joined Thomson in 1995.

Alexander Nicoll, London

Moving places

■ CAP GEMINI, the European IT services and business consultancy has promoted Alwyn Welch to managing director and chief executive for UK, Ireland and Asia.

■ Alvin Dobbine, vice-president of operations and chief operating officer of GIANT FOOD will retire on March 1. Dobbine, who joined Giant in 1954, will remain a director and a consultant. Michael Broomfield will replace Dobbine. Broomfield will step down as a Giant director and resign from J Sainsbury, which holds a 50 per cent stake in the Giant. Broomfield began working with Giant in 1995 as Sainsbury's senior management consultant and representative.

■ RJR NABISCO HOLDINGS has named to its board Barnes Group president and chief executive Theodore Martin, increasing the size of RJR Nabisco's board to ten directors from nine. Barnes Group makes and distributes parts and replacement products for the aerospace, automotive and other durable goods markets. RJR Nabisco is a holding company with food, consumer-products and tobacco operations.

■ Gilles Pajot, restructuring specialist at pharmaceutical company PHARMACIA & UPJOHN has resigned. Pajot has for the past six months headed the company's global turnaround and restructuring project. He had served as the company's senior executive in Europe and as a member of the senior management team from the creation of Pharmacia & Upjohn in 1995. Pajot, while heading up the company's European operations was responsible for the integration of the country operations of the former Pharmacia and Upjohn companies to create a unified regional business.

■ Sammy Lee Kwok-kin, executive director of property and hotel investment company PEARL ORIENTAL HOLDINGS, has resigned. He will be replaced by Wong Tin-sang, who also becomes operations manager of Pearl International Hotels.

■ The FUTURES INDUSTRY ASSOCIATION has elected Laurence Mollner, president of Carr Futures, to serve as chairman of the association until the FIA's annual meeting which will be held in March. Mollner fills a position vacated by John Sievwright, who was head of global financial futures and options at Merrill Lynch. Sievwright resigned as chairman after being appointed president and chief operating officer of Merrill Lynch in Japan. He will continue to serve on the FIA board. Mollner previously served as chairman of the FIA from 1995 until 1997 when he resigned his post because of demands on his time during the transition of Dean Witter Institutional Futures division into Carr Futures.

■ A C E INSURANCE has promoted Larry Lombardo, senior vice-president, excess liability, to executive vice-president with overall responsibility for underwriting operations. Lombardo, a Bermudian, has been with A C E since 1986. Brian Dowd, vice-president, property underwriter, has been promoted to senior vice-president, property, and will have responsibility for A C E Insurance Company's Excess Property book of business. Dowd joined A C E Insurance two years ago. Pierre Samson, currently vice-president and actuary, Financial Lines, has been promoted to senior vice-president, Financial Lines. Samson, who joined the company in 1995 from Tillinghast, will head up day-to-day operations.

■ THE PENINSULAR AND ORIENTAL STEAM NAVIGATION COMPANY has appointed Richard Hein a director. Hein is managing director of P & O Australia. He will also become chairman of P & O Australia, following the retirement at the end of 1997 of Robert Somervaille, while continuing as managing director.

■ FLAG, which owns the world's largest undersea fibreoptic system, has elected Andres Bande chairman and chief executive. Bande joins from Sprint Corporation, where he has been president of Sprint International.

■ Walter Shipley, chairman and chief executive of The Chase Manhattan Bank, has been named a Class A director of the FEDERAL RESERVE BANK OF NEW YORK's board of directors. He succeeds J Carter Bacot, chairman and chief executive of The Bank of New York and its holding company, Bank of New York Company, as one of the three Class A directors for a three-year term beginning this January.

■ SANTANDER INVESTMENT SECURITIES has announced that Ellis Juan, formerly of The World Bank, will join SIS in New York as senior vice-president, head of project finance for Latin America. Juan will be responsible for developing Santander's Project Finance Practice in Latin America. Prior to Santander, since 1993, Juan was a senior private sector development specialist at The World Bank.

■ INVESCO FUNDS GROUP has announced that Dan Hesser, a 35-year veteran in the mutual fund industry, is planning to retire at the end of 1998. Hesser joined Invesco in 1962 and has been the company's president and chief executive since 1991.

■ VISA INTERNATIONAL has announced two senior level appointments, both of whom are to serve on its executive management committee. Philippe Menier joins Visa International EU Region from Citibank, where he was business manager, Citibank Bankcards in the UK. Marc Temmerman joins from Europay International, where he was director, products and brands. Both will be based at Visa's European headquarters in London, and will be working on the development and implementation of Visa's EU's product and marketing strategy.

■ REMY-COINTREAU has appointed Dominique Heriard Dubreuil, 51, chairman. She succeeds Andre Heriard Dubreuil, 80, who becomes honorary chairman. She has been chairman of Remy Martin since 1990.

■ STERLING BANCSHARES has named J Downey Bridgwater president, replacing Mark Giles, who resigned to join a group organising a new bank in Virginia. Bridgwater was previously chief executive of Sterling Bank unit's memorial office.

International appointments

Please fax information on new appointments and retirements to +44 171 873 3926, marked for International People. Set fax to 'fine'.

Early burst of buying runs out of steam

GOVERNMENT BONDS

By Vincent Boland in London and John Labate in New York

Government bond markets ended a hectic day's trading well below their best levels yesterday, after an early burst of buying fuelled by concern over the financial crisis in Asia ran out of steam.

Markets were initially buoyant as prices soared and yields fell across the board – the yield on 10-year German bunds was heading relentlessly for 5 per cent at one point, to the astonishment of many analysts who had not expected it to be achieved so soon.

However, exuberance eventually gave way to profit-taking and European markets ended with slight gains while US Treasuries were modestly higher at lunchtime.

The Dow Jones Industrial Average slumped at the start of trading but quickly recovered as traders and investors began to look more positively on what Indonesia's authorities were promising to do to avoid a financial melt-down.

"It was a very mixed market," said Jeremy Hawkins, chief economist at Bank of America in London.

"Initially, there was a rally on Asian factors and then profit-taking. There is the danger of getting carried away, and the potential out of Asia to put an end to safe-haven buying. But the market in general is pretty positive towards bonds, and I don't see that changing for the rest of the week."

Earlier, the view that Asia's crisis had definitely put an end to interest rate rises in the US and Europe took hold with a vengeance. The short sterling contract, which is a barometer of how the market feels UK interest rates will move, jumped 16 basis points, implying rate cuts from September. Analysts were sceptical, however, saying UK base rates had probably not yet finished rising.

A 5 per cent bund yield was also widely considered to be unsustainable for very long. "That is a very big level, so it was no surprise to see a turnround," said Graham McDevitt, head of global bond strategy at Paribas. "It was a very futures-driven day and there was not much cash activity compared to last week."

However, he said the 10-year bund yield was likely to break below 5 per cent soon and could continue to trade down to 4.75 per cent given the mood on equity and bond markets.

GERMAN BUNDS led the initial European rally on safe-haven buying as equity markets weakened, with some evidence of switching out of shares into bonds. The March future settled in London at 106.42, up 0.24, after hitting 106.78 at one point, with 240,000 contracts changing hands in trading on Liffe.

Most activity was seen at the short end of the yield curve, which steepened by 3 basis points yesterday. The curve is now 9 points steeper than it was last Wednesday.

With international factors foremost in investors' minds, cost of living data for December due to be published today will provide some domestic focus for bunds, although little change is expected.

Analysts said the view was gaining ground that any interest rate rise by the Bundesbank, initially expected in the first half of this year, would now not materialise until the second half.

The performance of bunds was matched by other European markets. ITALIAN BTPs firmed but closed well below their high for the day, with the March future settling at 117.62, up 0.10, after touching 118.00 in steady London trading.

SPANISH BONOS climbed 0.17 to 107.55, while FRENCH BONDS rose 0.16 in Paris to 103.00 in turnover of more than 155,000 contracts.

UK GILTS played second fiddle to the short sterling contract and ended mixed after hitting a fresh high for the March future, which settled at 124¼, up ⅜. The spread over 10-year bunds stood at 102 basis points.

US TREASURIES moved higher in early trading. In the morning session the long bond touched record low yields, but prices later eased. By midday the 30-year Treasury bond, the standard for long-term interest rates, was ¼ higher at 105⅜, sending the yield down to 5.708 per cent.

Among shorter-term issues, the two-year note rose 1/16 to 100%, yielding 5.150 per cent. The 10-year note was ⅜ higher at 105⅞, yielding 5.370 per cent. The Federal Funds rate was 5.50 per cent.

Bonds surged initially as the US stock market plunged more than 120 points in the opening few minutes, on weaker overseas markets. However, prices had come off those highs by midday as the Dow recovered its poise.

"Earlier in the day there was talk of profit-taking by hedge fund operators," said Hamilton Davis, bond trader at Everen Securities in Chicago.

No important economic news was announced yesterday, but several key figures are due to be released later in the week.

The consumer price index will be published today, and a retail sales report on Wednesday.

Fannie Mae launches benchmark notes

INTERNATIONAL BONDS

By Samer Iskandar and Edward Luce

Fannie Mae, the largest US mortgage lender, yesterday launched its benchmark note programme with a $4bn issue of five-year bonds.

The deal, jointly led by Credit Suisse First Boston, Goldman Sachs and Merrill Lynch, was priced to yield 19 basis points above five-year US Treasury notes.

Up to half of Fannie Mae's $80bn funding programme for 1998 could be issued in the form of benchmark notes. With issue sizes of between $2bn and $5bn each, the new securities will be more liquid than existing, smaller deals.

"We think that liquidity is what investors want," said Linda Knight, treasurer. "The reaction from investors has been very positive."

She also said Fannie Mae was aiming to build a full yield curve of benchmark notes, with maturities ranging from three to 10 years. A benchmark note could be issued every month if market conditions allow.

The large issue size is expected to reduce Fannie Mae's borrowing costs, as investors are willing to exchange lower yields for higher liquidity.

All benchmark notes will be strippable – the coupons and principal repayment can be separated and traded as distinct securities. All issues will also pay coupons on the 15th day of the month, which will make coupon strips due in the same month interchangeable.

ABBEY NATIONAL, the UK bank, issued the first ecu-denominated bonds of the year, an Ecu200m floating-rate deal. Barclays Capital, joint lead with UBS, said the three-year issue was targeted mostly at small fund and retail bank investors. The deal was priced to yield 10 basis points over the French BTAN curve.

The ecu market is expected to be increasingly active in the next few months as borrowers prepare investors for European monetary union. OKB, the Austrian state-controlled bank, is planning a 10-year Ecu750m bond in the near future.

COCA-COLA ENTERPRISES, one of the funding arms of Coca-Cola, issued its first lira-denominated bond in a L300bn offering. An official at DMG, sole lead manager, said the borrower had benefited from the rally in the Italian BTP market and the strong Italian retail demand for household names. The five-year bond was issued with a coupon of just 5 per cent to give a spread of eight basis points over lira Libor.

ST GEORGE BANK, Australia's fifth largest, tapped the five-year dollar sector for the first time since March 1997 with a $400m floater priced to yield 18 basis points over Libor, against 13 points on its last visit.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Fannie Mae♦	4bn	5.25#	99.662R	Jan 2003	0.10R	+19(5%Dec02)	CSFB/Goldman/Merrill
St George Bank‡	400	(a)	99.848R	Jan 2003	0.175R	-	Barclays Capital/UBS
LUXEMBOURG FRANCS							
Bayerische Hypo	2bn	5.375(j)	102.45	May 2008	2.00	-	BGL
SWISS FRANCS							
Halifax	200	2.25(s)	99.60	Aug 2003	1.90	-	Deutsche Morgan Grenfell
ITALIAN LIRE							
Coca-Cola Enterprises GB	300bn	5.00	101.38	Feb 2003	1.875	-	Deutsche Morgan Grenfell
Bayerische Hypo	100bn	(b)	99.75R	Feb 2013	0.60R	-	Chase Manhattan Intl
ECU							
Abbey National Trsry Svcs	200	4.50(s)	99.803R	Aug 2001	0.20R	+109	Barclays Capital
AUSTRALIAN DOLLARS							
Bayerische Landesbank	100	5.25(s)	100.755	Dec 2001	1.50	-	Hambros Bank

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ♦Unlisted. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) 3-mth Libor +12½bp. b) 12% in year 1, 8% in yr 2, 7% in yr 3, then 15% – 2 x 12-mth Libor. Minimum zero coupon. f) Over interpolated yield. j) Long 1st coupon. s) Short 1st coupon.

CAPITAL MARKETS NEWS DIGEST

Depositary receipt trading up sharply

Trading in US and European depositary receipts grew dramatically in 1997, reflecting growing demand for non-domestic equity holdings. In its annual survey of depositary receipts, Bank of New York said trading volume rose by 23 per cent to 15bn shares in 1997 while the equivalent dollar value grew by 53 per cent to a turnover of $555bn. Depositary receipts are secondary share listings in the US or Europe by companies outside their domestic market.

Bank of New York said there was $19bn in depositary receipt offerings from 145 issuers spanning 46 countries. In addition, 249 depositary programmes were launched on the New York Stock Exchange, Nasdaq, Amex and European markets, including debut issuers from Bahrain, Jordan, Kazakhstan, Latvia, Lithuania and Slovenia.

In the market for American and global depositary receipts there were more than $6bn in privatisation listings. Companies from the UK, Mexico and the Netherlands were the most actively traded, with the greatest turnover recorded in Telebras, the Brazilian telecoms company, Teléfonos de Mexico, and Ericsson. Analysts expect Europe to be the most prolific source of new programmes in 1998, with Brazil, Mexico, China and India also expected to be active. *Edward Luce*

■ OTC DERIVATIVES

Volatility boosts volumes

Trading in over-the-counter derivatives reached a record in the first half of 1997, as new business rose 46 per cent to $13,822bn from the previous six months' $9,465bn, according to the International Swaps and Derivatives Association. Outstandings in interest rate swaps and options, and currency swaps stood at $28,733bn on June 30, up 12.9 per cent from December 1996 and 36.4 per cent higher than a year earlier.

"Worldwide volatility continued to drive the wider use of privately-negotiated derivatives," said Thomas Montag, chairman of ISDA's market survey committee. "Contributing factors for growth were continuing low interest rates in the US, the convergence of interest rates in Europe in anticipation of a single currency and the incipient financial problems in Asia." *Samer Iskandar*

■ GERMAN MEDIA

Pro Sieben to raise DM200m

Pro Sieben, the German media group floated on the Frankfurt stock exchange last summer, is to raise DM200m through the issue of a seven-year fixed-rate bonds. The company, which received DM360m in last year's DM1.26 initial public offering of 17.5m non-voting shares, said the bond issue would help reduce bank debt and finance ordinary business activities. Bayerische Hypotheken and Wechsel Bank is handling the issue, more details of which will be announced at the end of this month. *Frederick Stüdemann, Berlin*

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Jan 12	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	04/00	7.000	104.1694	5.01	-0.07	-0.12	-0.47	-1.30
	10/07	10.000	132.8697	5.54	-0.10	-0.18	-0.65	-1.94
Austria	09/99	7.000	104.5100	4.15	-0.03	-0.18	-0.30	+0.39
	07/07	5.625	103.3900	5.16	-0.02	-0.12	-0.20	-0.71
Belgium	01/00	4.000	99.8900	4.06	-0.09	-0.18	-0.33	+0.44
	03/07	6.250	107.3400	5.14	-0.03	-0.20	-0.29	-0.89
Canada	09/99	4.750	100.1300	4.66	-	-0.22	-0.35	+0.42
	06/07	7.250	114.4000	5.26	-0.01	-0.14	-0.39	-1.45
Denmark	12/99	6.000	103.2300	4.19	-0.06	-0.25	-0.38	+0.26
	11/07	7.000	112.4000	5.34	-0.01	-0.17	-0.35	-1.24
Finland	01/99	11.000	107.0190	3.72	+0.01	-0.22	-0.41	+0.08
	04/06	7.250	113.9510	5.13	-0.01	-0.16	-0.29	-1.12
France	01/00	4.000	100.0300	3.98	-0.07	-0.20	-0.32	+0.64
	10/04	6.750	111.4000	4.74	-0.05	-0.17	-0.27	-0.49
	10/07	5.500	103.2600	5.07	-0.01	-0.11	-0.20	-0.73
	10/25	6.000	105.2900	5.62	-	-0.11	-0.21	-1.17
Germany	09/99	4.000	100.1700	3.88	-0.05	-0.18	-0.26	+0.51
	11/04	7.500	115.2200	4.82	-0.04	-0.18	-0.32	-0.57
	07/07	6.000	106.9000	5.06	-0.02	-0.13	-0.23	-0.79
	07/27	6.500	112.3100	5.63	-0.02	-0.13	-0.24	-1.13
Ireland	04/99	6.250	101.8000	4.67	-0.05	-0.17	-0.34	-1.49
	08/06	8.000	118.1000	5.32	-0.01	-0.12	-0.25	-1.53
Italy	05/00	6.000	102.8500	4.69	+0.01	-0.08	-0.29	-1.65
	05/02	6.250	105.1900	4.90	-0.02	-0.13	-0.38	-1.77
	07/07	6.750	110.4200	5.33	-0.02	-0.13	-0.34	-2.23
	11/26	7.250	119.9400	5.81	-0.02	-0.14	-0.34	-2.29
Japan	03/00	6.400	112.5700	0.55	-0.07	-0.05	-0.06	-0.15
	12/02	4.800	117.1700	1.19	-0.05	-0.06	-0.06	-0.61
	09/05	3.000	109.7500	1.64	-0.03	-0.03	-0.07	-0.81
	09/17	3.000	108.1600	2.47	-0.03	-0.05	-0.08	-0.81
Netherlands	11/99	7.500	105.9800	4.04	-0.04	-0.15	-0.30	+0.68
	02/07	5.750	105.1800	5.02	-0.04	-0.14	-0.24	-0.73
New Zealand	02/00	6.500	98.0360	7.55	-0.06	+0.07	+0.28	+0.54
	11/06	8.000	108.6875	6.66	-0.12	-0.18	-0.27	-0.73
Norway	01/99	9.000	104.7800	4.22	-0.01	-0.08	-0.14	+0.26
	01/07	6.750	110.4600	5.26	-0.04	-0.14	-0.20	-0.67
Portugal	03/99	8.500	104.5745	4.44	-0.01	-0.18	-0.36	-1.31
	02/07	6.625	108.8052	5.38	-0.02	-0.13	-0.29	-1.46
Spain	07/99	7.400	104.2358	4.46	+0.08	+0.03	-0.17	-0.83
	03/07	7.350	114.3699	5.33	-0.02	-0.10	-0.27	-1.51
Sweden	01/99	11.000	106.0080	4.80	-0.04	-0.22	-0.26	+0.35
	08/07	8.000	117.4610	5.59	+0.01	-0.24	-0.37	-1.22
Switzerland	03/00	5.000	107.1200	1.61	-0.06	-0.24	-0.29	-0.38
	06/07	4.500	111.3200	3.09	-0.03	-0.12	-0.25	-0.76
UK	08/99	6.000	99.3047	6.47	-0.14	-0.20	-0.40	-0.14
	11/04	6.750	103.8063	6.04	-0.08	-0.21	-0.37	-1.37
	12/07	7.250	109.5000	5.96	-0.05	-0.17	-0.31	-1.68
	06/21	8.000	125.8439	5.94	-0.03	-0.17	-0.27	-1.89
US	10/99	5.625	100.6560	5.23	+0.04	-0.24	-0.41	-0.81
	11/04	7.875	114.1480	5.37	+0.01	-0.13	-0.40	-1.01
	08/07	6.125	105.4530	5.39	-	-0.12	-0.35	-1.22
	08/27	6.375	108.4530	5.76	+0.02	-0.02	-0.21	-1.07
ECU	01/00	4.000	99.4000	4.31	-0.05	-0.19	-0.38	+0.16
	04/07	5.500	102.3400	5.17	-0.04	-0.14	-0.23	-1.13

London closing. *New York mid-day. Source: Interactive Data/FT Information
Yields: Local market standard/Annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents.

10 YEAR BENCHMARK SPREADS

Jan 12	Bid Yield	Spread vs Bunds	Spread vs T-Bonds
Australia	5.54	+0.48	-0.17
Austria	5.16	+0.10	-0.21
Belgium	5.14	+0.08	-0.23
Canada	5.26	+0.20	-0.11
Denmark	5.34	+0.28	-0.03
Finland	5.13	+0.07	-0.24
France	5.07	+0.01	-0.30
Germany	5.06	-	-0.31
Ireland	5.32	+0.26	-0.05
Italy	5.33	+0.27	-0.04
Japan	1.64	-3.42	-3.73
Netherlands	5.02	-0.04	-0.35
New Zealand	6.66	+1.60	+1.29
Norway	5.26	+0.20	-0.11
Portugal	5.38	+0.32	+0.01
Spain	5.33	+0.27	-0.04
Sweden	5.59	+0.53	+0.22
Switzerland	3.09	-1.97	-2.28
UK	5.96	+0.90	+0.59
US	5.37	+0.31	-
ECU	5.17	+0.11	-0.20

Source: Interactive Data/FT Information
London closing. * New York closing
Annualised yield basis.

EMERGING MARKET BONDS

Jan 12	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd vs US
EUROPE								
Croatia	02/02	7.000	BBB-	95.5000	8.31	+0.06	-0.21	+3.11
Poland	07/04	7.125	BBB-	102.5500	6.63	+0.07	-0.65	+1.39
Russia	06/07	10.000	BB-	88.5000	12.07	+0.15	-0.23	+6.73
LATIN AMERICA								
Argentina	09/27	9.750	BB	90.5000	10.82	+0.47	-0.19	+5.13
Brazil	05/27	10.125	BB-	87.7500	11.60	+0.37	-0.03	+5.91
Mexico	05/26	11.500	BB	116.0000	9.80	+0.20	-0.16	+4.13
ASIA								
China	07/06	7.750	BBB+	103.7500	7.13	+0.03	+0.24	+1.82
Philippines	10/16	8.750	BB+	87.0000	10.33	-0.09	+0.35	+4.82
Thailand	04/07	7.750	A-	81.3000	11.07	-0.03	+1.75	+5.73
AFRICA/MIDDLE EAST								
Lebanon	07/00	9.125	BB-	102.5000	7.96	-	+0.18	+2.82
South Africa	10/06	8.375	BB+	104.4000	7.66	-0.02	-0.28	+2.35
Turkey	09/07	10.000	B	101.2500	9.78	+0.03	-0.36	+4.44
BRADY BONDS								
Argentina	03/23	5.500	BB	73.1300	8.59	+0.11	-0.26	+2.97
Brazil	04/14	4.500	BB-	73.0000	10.81	+0.35	-	+5.34
Mexico	12/19	6.250	BB	83.5000	7.84	+0.11	-0.25	+2.28
Venezuela	03/20	6.750	B+	86.3800	8.08	-0.01	-0.25	+2.51

London closing. Prices in US$. Source: Interactive Data/FT Information.
Standard & Poor's ratings.

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	103.10	103.00	+0.16	103.38	102.94	139,380	135,015
Jun	102.38	102.30	+0.16	102.54	102.38	298	2,053
Sep	102.14	102.06	+0.16	102.14	102.14	2	-

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	CALLS Jan	CALLS Feb	CALLS Mar	PUTS Jan	PUTS Feb	PUTS Mar
97	4.94	4.94	4.34	-	0.02	0.16
98	3.94	3.97	3.49	0.01	0.05	0.29
99	2.95	3.04	2.71	0.02	0.12	0.50
100	2.00	2.15	2.03	0.06	0.22	0.81
101	1.13	1.37	1.45	0.19	0.43	1.22

Est. vol. total, Calls 29,531 Puts 15,520. Previous day's open int., Calls 68,076 Puts 102,497.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	106.38	106.42	+0.24	106.78	106.33	249929	256492
Jun	105.90	105.83	+0.24	106.04	105.90	305	2862

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	CALLS Feb	CALLS Mar	CALLS Apr	CALLS Jun	PUTS Feb	PUTS Mar	PUTS Apr	PUTS Jun
10600	0.67	1.01	0.90	1.23	0.25	0.59	1.07	1.40
10650	0.38	0.71	0.67	1.00	0.46	0.79	1.34	1.67
10700	0.19	0.49	0.49	0.80	0.77	1.07	1.66	1.97

Est. vol. total, Calls 30016 Puts 42035. Previous day's open int., Calls 184242 Puts 202753

■ NOTIONAL GERMAN BUND (BOBL) FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	105.10	105.14	+0.12	105.40	105.05	207,583	218,055
Jul	104.85	104.72	+0.12	104.85	104.75	361	250

■ NOTIONAL GERMAN BOBL FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	105.09	104.88	-0.19	104.49	104.39	727	30,994
Jun	-	104.29	-0.19	-	-	-	-

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	117.70	117.62	+0.10	118.00	117.56	81078	121572
Jun	117.33	117.02	+0.12	117.33	117.10	1283	8604

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	CALLS Mar	CALLS Jun	PUTS Mar	PUTS Jun
11750	0.82	1.20	0.70	1.68
11800	0.57	0.99	0.95	1.97
11850	0.38	0.81	1.26	2.29

Est. vol. total, Calls 7062 Puts 7649. Previous day's open int., Calls 52866 Puts 53195

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	107.68	1077.55	+0.16	107.94	107.51	101,818	105,546

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	124-03	124-04	+0-12	124-23	124-00	98783	188345
Jun	108-06	108-01	+0-07	108-14	108-06	5	2019

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	CALLS Feb	CALLS Mar	CALLS Apr	CALLS Jun	PUTS Feb	PUTS Mar	PUTS Apr	PUTS Jun
124	0-46	1-15	0	0	0-38	1-07	15-62	15-62
125	0-19	0-51	0	0	1-11	1-43	16-62	16-62
126	0-07	0-31	0	0	1-63	2-23	17-62	17-62

Est. vol. total, Calls 9060 Puts 7242. Previous day's open int., Calls 89855 Puts 25883

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	102.08	102.24	+0.22	102.60	102.08	121	5,492

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Mar	123-19	123-31	-	124-09	123-11	641,222	714,263
Jun	123-03	123-19	-	123-28	123-00	10,119	39,978
Sep	123-00	122-30	-	123-00	123-10	2,577	6,128

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Mar	130.46			130.59	130.43	1058	n/a
Jun	129.89			130.00	129.89	59	n/a

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

US CORPORATE BONDS

Jan 9	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
UTILITIES								
Pac Bell	07/02	7.25	AA-	106.0186	5.70	-0.12	-0.59	+0.49
NY Tel	08/25	7.00	A+	101.5407	6.87	-0.05	-0.34	+1.17
CWE	05/08	8.00	BBB	112.0599	6.38	-0.06	-0.49	+0.99
FINANCIALS								
GECC	05/07	8.75	AAA	119.8569	5.94	-0.09	-0.53	+0.55
Banc One	08/02	7.25	A+	106.0110	5.72	-0.13	-0.63	+0.51
US West	01/07	7.30	BBB+	106.0074	6.41	-0.08	-0.54	+1.02
INDUSTRIALS								
WMX Tech	04/99	8.25	A-	100.3925	5.90	-0.13	-0.53	+1.04
Wal Mart	05/02	8.75	AA	104.2574	5.62	-0.13	-0.63	+0.41
Dayton Hud	06/21	9.70	BBB+	133.4620	6.81	-0.04	-0.39	+1.11
AGENCIES								
FHLMC	04/07	7.14	N/A	110.2455	5.69	-0.09	-0.53	+0.30
SLMA	03/00	7.50	N/A	104.3474	5.33	-0.14	-0.58	+0.17
FNMA	02/18	8.95	N/A	132.7488	6.09	-0.06	-0.41	+0.39
FFCB	06/06	8.95	N/A	121.5972	5.67	-0.08	-0.54	+0.28
HIGH YIELD								
Stone Cont	02/01	9.88	B	101.2500	0.00	-	-	-
AK Stl	12/01	9.13	BB-	104.2500	0.00	-	-	-
Pacalta	06/04	10.75	B-	99.0000	0.00	-	-	-

New York closing. Source: Interactive Data/FT Information.
Standard & Poor's ratings. Yields: semi-annual basis.

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
Prime rate	8½	One month	-	Two year	5.15
Broker loan rate	7¾	Two month	-	Three year	5.18
Fed.funds	5½	Three month	5.00	Five year	5.22
Fed.funds at intervention	-	Six month	5.10	10-year	5.38
		One year	5.06	30-year	5.72

INTERNATIONAL BONDS

Jan 12	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
EURO DM								
EIB	02/07	5.750	AAA	104.6300	5.10	-0.03	-0.25	+0.12
Spain	01/07	5.750	AA	103.8700	5.20	-0.03	-0.25	+0.22
Philip Morris	03/04	5.375	A	101.1964	5.14	-0.08	-0.32	+0.50
Finland FRN	09/02	3.820	AA	100.7382	4.04	-0.03	-0.34	-0.22
EURO FFR								
Austria	01/04	5.500	AAA	103.6900	4.78	-0.04	-0.26	+0.19
Abbey Nat	02/04	6.000	AA	105.7600	4.88	-0.05	-0.28	+0.29
Cred Foncier	02/04	9.125	A	119.9600	5.22	-0.04	-0.24	+0.63
3CIF FRN	12/01	3.750	AA-	99.8672	4.21	-0.07	-0.31	+0.05
EURO-LIRA								
EIB	02/07	7.000	AAA	111.8000	5.33	-0.02	-0.25	+0.09
Abbey Nat	02/02	6.800	AA	106.4500	5.02	-0.06	-0.38	+0.23
Walt Disney	06/00	8.625	A	107.9400	5.05	-0.04	-0.31	+0.46
EIB FRN	03/01	5.825	AAA	100.2344	4.59	-0.01	-0.30	-0.10
EURO £								
EIB	12/07	7.625	AAA	110.0462	6.23	-0.07	-0.34	+0.22
Dresdner Bk	12/07	7.750	AA-	107.1023	6.74	-0.06	-0.30	+0.73
British Gas	03/00	7.625	A+	101.2968	6.95	-0.09	-0.44	+0.48
Abbey Nat FRN	02/02	7.830	AA	100.0184	6.14	-0.09	-0.38	-0.13
EURO $								
EIB	04/07	7.250	AAA	110.3000	5.78	-0.03	-0.34	+0.44
ABN Amro	06/07	7.125	AA-	107.5557	6.06	-0.10	-0.40	+0.72
Quebec	01/07	7.000	A+	105.8245	6.15	-0.06	-0.31	+0.81
Citicorp FRN	02/04	5.938	A+	99.8826	5.98	-0.04	-0.04	+0.72
EURO C$								
Bayer L-Bk	08/04	9.500	AAA	120.8459	5.61	-0.09	-0.39	+0.24
Toronto	05/04	8.500	AA+	115.5815	5.52	-0.10	-0.40	+0.15
Bell Canada	07/99	10.625	A+	107.2700	5.40	-0.08	-0.14	+1.06
Deutsche B FRN	09/02	5.875	AAA	101.5197	5.50	-	-0.07	+0.25
EURO YEN								
World Bank	03/02	5.250	AAA	117.1400	1.05	-0.04	-0.03	+0.19
Spain	03/02	5.750	AA	119.0500	1.07	-0.05	-0.05	+0.21
Cred Foncier	08/02	4.750	A	113.9471	1.56	-0.05	-0.02	+0.70
Italy FRN	07/99	0.594	AA	100.3292	0.30	-0.07	-0.06	-0.08

London closing. Source: Interactive Data/FT Information
Standard & Poor's ratings. Yields: Local market standard/Annualised basis.

UK BONDS

FTSE Actuaries Govt. Securities

Price Indices UK Gilts	Mon Jan 12	Day's change %	Fri Jan 9	Accrued interest	xd adj. ytd
1 Up to 5 years (19)	120.65	0.24	120.36	2.11	0.61
2 5-15 years (21)	162.13	0.34	161.58	2.01	0.44
3 Over 15 years (4)	199.07	0.31	198.44	2.32	0.00
4 Irredeemables (4)	247.86	0.53	246.55	2.67	0.00
5 All stocks (48)	154.52	0.30	154.06	2.17	0.46
Index-linked					
6 Up to 5 years (2)	213.75	0.15	213.43	1.74	0.00
7 Over 5 years (10)	218.87	0.31	218.20	1.50	0.58
8 All stocks (12)	217.25	0.29	216.62	1.52	0.53

UK Indices

	Low coupon yield Jan 12	Jan 9	Yr. ago	Medium coupon yield Jan 12	Jan 9	Yr. ago	High coupon yield Jan 12	Jan 9	Yr. ago
5 yrs	6.09	6.17	7.18	6.18	6.26	7.25	6.22	6.30	7.27
15 yrs	5.96	6.00	7.76	5.98	6.01	7.74	6.08	6.12	7.73
20 yrs	5.98	6.00	7.83	5.97	6.00	7.80	6.08	6.12	7.77
Irred.†	6.09	6.12	7.89						

	Inflation 5% Jan 12	Jan 9	Yr. ago	Inflation 10% Jan 12	Jan 9	Yr. ago
Up to 5 yrs	2.99	3.04	3.25	2.29	2.33	2.61
Over 5 yrs	2.99	3.01	3.60	2.79	2.81	3.43

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT Fixed Interest Indices

	Jan 12	Jan 9	Jan 8	Jan 7	Jan 6	Yr ago	High*	Low*
Govt. Secs. (UK)	103.92	103.65	103.34	103.07	103.00	94.01	103.92	93.31
Fixed Interest	139.27	138.39	137.94	137.61	137.25	115.85	139.27	116.32

© FTSE International Ltd 1998. All rights reserved. * for 1997/98. Government Securities high since compilation: 127.40 (09/01/35), low 49.18 (03/01/75). Fixed Interest high since compilation: 139.27 (12/01/98), low 50.53 (03/01/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

UK GILTS PRICES

Notes	Yield Int	Yield Red	Price £	+ or -	52 week High	52 week Low
Shorts" (Lives up to Five Years)						
[illegible]						
Index-Linked						
[illegible]						

Prospective real redemption rate on projected inflation of (1) 5% and (2) 3%. [illegible]

● "Tap" stock. ‡‡ Tax-free to non-residents on application. [illegible]

Other Fixed Interest

Notes	Yield Int	Yield Red	Price £	+ or -	52 week High	52 week Low
[illegible]						

هكذا من الاصل

CURRENCIES AND MONEY

Asian crisis boosts $ and rate outlook

MARKETS REPORT

By Simon Kuper

The dollar jumped against the yen yesterday, helped by renewed worries over Asia and a surprise rally in US stocks.

The dollar, seen as a safe haven from Asian financial turmoil, gained Y1.6 to close in London at Y133.1. Its rise was restrained somewhat by the continuing belief that central banks might intervene against it.

The Hong Kong and Singaporean stock markets fell by nearly 9 per cent each, largely because of the impending collapse of Peregrine, the Hong Kong securities company. But most Asian currencies held up. Currency strategists said the foreign exchange market had already discounted Peregrine's demise.

The Thai baht and the Taiwan dollar fell, but the Indonesian rupiah firmed as the International Monetary Fund held talks with Jakarta about the details of the rescue package it brokered last year. The IMF is seeking economic and banking sector reforms from Indonesia.

The country was "dicing with default" on its foreign debt, said Richard Gray, emerging markets economist at Bank of America in London.

UK interest rate futures contracts soared as the money market decided that British base rates had peaked. A surprise fall in UK industrial production in November, caused by the strong pound, and tame wholesale price figures in December, added to belief that the economy would slow sharply this year. The short sterling contract for June jumped 18 basis points, and is now pricing in base rates slightly below the present level of 7.25 per cent. The pound barely moved yesterday.

■ German, US and French interest rate futures rallied on fears that the Asian crisis might prompt global deflation and interest rate cuts. Eurodollar futures contracts are now pricing in a 75 per cent chance that the US will cut rates in March.

Hans Tietmeyer, Bundesbank president, said yesterday that the Asian turmoil would "dampen the inflationary rise" in the US.

Earlier this year, Alan Greenspan, chairman of the Federal Reserve, had likewise warned against deflation rather than inflation. His comments, which broke the habit of a lifetime, had sent yields on 30-year US Treasury bonds to their lowest level since 1977.

■ UK interest rates have peaked, if you believe the money market.

Philip Shaw, chief economist at Investec in London, does not. He points out that UK inflation is still above the Bank of England's 2.5 per cent upper limit. He adds that whereas the Fed might cut rates in order to help indebted Asia, the Bank of England, as a much smaller international player, can ignore the troubles of other countries. Gerard Lyons, chief economist at DKB International in London, noted that the Bank's last Inflation Report had said it expected a rebound towards trend economic growth in 1999. A rate cut was therefore unlikely, he said.

■ The Asian crisis hit South Africa yesterday, as the rand dropped to just above 5.00 against the dollar. The falling gold price also weighed on the currency. But South Africa's Reserve Bank showed no concern. Bertus van Zyl, general manager of the bank's international banking division, said the 5.00 level was "no more sacrosanct than any other level in the market. To say that at any price we have to protect this, I think that would be folly."

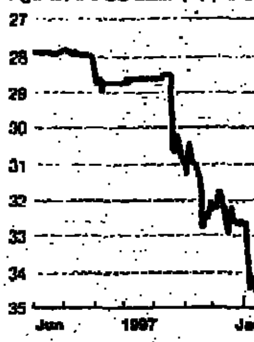
4CAST, the economic consultancy, called his comments "careless" and "an invitation to the market to buy dollars." But Mr Van Zyl may have noted South Korea's doomed attempt to draw a "Maginot Line" at 1,000 won to the dollar.

■ Fidel Ramos, the Philippine president, yesterday cancelled planned visits to Europe and the US after an opposition senator had asked him not to waste dollars while the country's currency was collapsing.

Meanwhile, police in Thailand suspended Richwell Datanet, a foreign exchange firm, and arrested its manager on charges of illegal currency trading. The police said that about 30 such firms were on their target list.

Taiwan dollar

Against the US dollar (T$ per US$)



Source: Datastream/ICV

■ **Pound in New York**

Jan 12	Latest	Prev. close
£ spot	1.6195	1.6140
1 mth	1.6169	1.6115
3 mth	1.6125	1.6065
1 yr	1.5933	1.5870

■ **OTHER CURRENCIES**

Jan 12	£	$
Czech Rp	58.1808 - 58.2378	35.9540 - 35.9780
Hungary	333.333 - 333.538	205.990 - 206.040
Iran	4856.40 - 4854.60	3000.00 - 3000.00
Kuwait	0.4955 - 0.4968	0.3062 - 0.3063
Poland	5.7414 - 5.7500	3.5480 - 3.5530
Russia	9.7132 - 9.7201	6.0025 - 6.0045
U.A.E.	5.9432 - 5.9462	3.6727 - 3.6732

POUND SPOT FORWARD AGAINST THE POUND

Jan 12		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	20.7053	+0.026	950 - 155	20.7315	20.5575	20.633	4.2	20.5214	3.6	20.0525	3.2	102.6
Belgium	(BFr)	60.7100	+0.0674	663 - 536	60.7560	60.2340	60.4957	4.4	60.1378	3.8	58.699	3.3	102.0
Denmark	(DKr)	11.2084	+0.0149	047 - 121	11.2221	11.1278	11.1714	4.0	11.1128	3.4	10.8758	3.0	104.6
Finland	(FM)	8.9148	+0.0122	082 - 214	8.9230	8.8540	8.8817	4.5	8.8292	3.8	8.6219	3.3	80.8
France	(FFr)	9.8533	+0.0139	501 - 565	9.8662	9.7836	9.9188	4.2	9.7627	3.7	9.5271	3.3	105.4
Germany	(DM)	2.9433	+0.0038	419 - 446	2.9501	2.9219	2.9328	4.3	2.916	3.7	2.8466	3.3	103.1
Greece	(Dr)	484.914	-0.064	423 - 405	486.212	482.064	470.549	-14.0	480.215	-13.2	504.402	-8.5	65.2

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jan 12		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan index
Europe													
Austria	(Sch)	12.7929	-0.0124	889 - 968	12.8520	12.7370	12.7689	2.3	12.7349	1.8	12.5964	1.5	102.1
Belgium	(BFr)	37.5100	-0.045	900 - 300	37.6560	37.3220	37.434	2.4	37.3195	2.0	36.87	1.7	102.0
Denmark	(DKr)	6.9252	-0.0062	242 - 262	6.9577	6.8949	6.9135	2.0	6.8863	1.7	6.8314	1.4	102.7
Finland	(FM)	5.5081	-0.0047	050 - 111	5.5305	5.4851	5.4966	2.5	5.4791	2.1	5.4156	1.7	80.2
France	(FFr)	6.0880	-0.0049	871 - 888	6.1168	6.0638	6.0764	2.3	6.0584	1.9	5.9843	1.7	104.9
Germany	(DM)	1.8185	-0.0018	180 - 190	1.8282	1.8110	1.815	2.3	1.8095	2.0	1.789	1.7	102.7
Greece	(Dr)	287.250	-0.68	000 - 500	289.160	286.280	291.08	-16.0	298.005	-15.0	316.825	-10.3	65.0

Bid/offer spreads in the Dollar Spot table show only the last three decimal places. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Jan 9: Base average 1990=100.
The exchange rates printed in this table are also available on the internet at http://www.FT.com

WORLD INTEREST RATES

MONEY RATES

January 12	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.00	2.75	-
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.60	-	3.30
Germany	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.50	2.50	3.30
Ireland	[illegible]	[illegible]	6	[illegible]	[illegible]	-	-	6.75
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.00	5.50	6.23
Netherlands	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	2.75	3.30
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	1.00	-
US	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	5.00	-
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
US Dollar CDs	-	5.37	5.37	5.37	5.39	-	-	-
ECU Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
SDR Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo Mitsubishi, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

■ **EUROLIRA OPTIONS** (LIFFE) L1000m points of 100%

Strike Price	CALLS Mar	CALLS Jun	CALLS Sep	PUTS Mar	PUTS Jun	PUTS Sep
9450	0.15	0.86	1.21	0.13	0.02	0.03
9475	0.07	0.63	0.97	0.30	0.04	0.04
9500	0.03	0.42	0.75	0.51	0.06	0.07

Est. vol. total, Calls 4025 Puts 2713. Previous day's open int., Calls 158008 Puts 57903

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

UK INTEREST RATES

LONDON MONEY RATES

EMS EUROPEAN CURRENCY UNIT RATES

BASE LENDING RATES

The sharp devaluation of the rupiah and export bans are having their effect

Indonesian crisis hits commodities

By Peter Montagnon in Jakarta

Indonesia's sharp devaluation has brought little comfort to the country's commodity producers, with difficulties facing all three main sectors of palm oil, rubber and timber, economists and bankers say.

Normally, a cheaper local currency would boost the profits of commodity companies whose products are priced in dollars, but palm oil producers have been unable to take advantage of this because the government has banned exports in the current quarter to help secure supplies and keep domestic prices down.

Ironically, this has helped push up palm oil prices in international markets, says Agnes Safford of ABN Amro Hoare Govett. Normally, palm oil would be Indonesia's sixth or seventh largest export commodity.

The share prices of the two listed plantation companies, London Sumatra and Astra Agro, have been badly hit as a result of the ban and first-quarter results are likely to be extremely disappointing, says another analyst.

Economists say they expect the International Monetary Fund to press the government to lift the export ban in this week's negotiations over a strengthened economic reform programme. But there could be resistance because of fears of social unrest, says Mr David Chang of Trimegah Securities. The government is even less likely to change its mind after shops ran out of supplies of cooking oil and other staple foodstuffs as the crisis in financial markets intensified last week.

Nor is the outlook encouraging in other sectors. The financial crisis in Thailand has prompted rubber producers there to increase their output, which has affected international prices.

Thailand had previously been expected to wind down its rubber production, while Vietnam has increased the acreage under cultivation. In Indonesia, a shortage of investment capital has slowed the process of converting rubber plantations to the normally more lucrative palm oil, says Ms Safford.

Plywood producers are wrestling with a sharp fall in the international price of timber as building sector demand drops in South Korea, Japan and China which are Indonesia's main markets. Dollar revenues have encouraged Indonesia's timber companies to raise dollar debt and they are now being squeezed as prices fall.

But Mr Chang believes the problems are short-term. Indonesia has some advantages because land and labour are cheap and the country has a bigger land mass, he says.

Less clear is how the devaluation has affected pulp and paper producers, some of whom have been able to raise large loans on international capital markets even since the country first sought assistance from the IMF last October. Economists say it has proved difficult to track the prices obtained by Indonesian producers for their output.

Shortage of capital has slowed the conversion of Indonesian rubber plantations to palm oil *Reuters*

Challenge to UN team by Iraq lifts oil

MARKETS REPORT

By Robert Corzine, Kenneth Gooding and Gary Mead

A fresh Iraqi challenge to the national composition of the latest UN arms inspection team to enter the country underpinned world oil markets yesterday.

The move helped reverse a sharp fall in early trading on London's International Petroleum Exchange, when renewed worries about Asian economies caused crude to sink to a 45-month low; at one stage Brent Blend for February delivery was quoted at $15.10 a barrel, down 40 cents.

The Iraqi threat to ban the team from carrying out their mission helped prices recover to around $15.50 a barrel in late London trading.

Silver continued to be hit by worries that US lawyers might launch a class action alleging the market is being manipulated and the price dropped another 19 cents, or more than 3 per cent, to $5.50 a troy ounce.

GNI Research said in its daily commodities report it was unlikely any legal action would be taken but the wave of selling "suggests that a word may have been put in the appropriate ear by the authorities".

Peter Fava, head of precious metals at HSBC Midland and chairman of the London Bullion Market Association, said: "We have seen things that suggest the [silver] market is being squeezed. We think the source of the squeeze is in the US and we think it's the investment funds in the US who are doing it."

Ted Arnold, analyst at Merrill Lynch, who had forecast a $7 an ounce silver price, said he now expected the price to head towards $5. The game was up for the speculators involved in the squeeze. "Indian demand starts to fall once prices rise above $5 and a large amount of new mine production is scheduled to arrive this year from BHP's Cannington mine in Australia."

On the London International Financial Futures Exchange coffee futures slid further, the March contract closing $25 lower at $1,730, having touched a high of $1,750 during the day.

Cocoa was hit by selling by investment funds and closed at its lowest point since early December, down £24 at £1,024 a tonne, an 11.5 per cent drop in four weeks.

US farmers may harvest a record 2.8bn bushels of soyabeans and 9.8bn bushels of maize this year, according to estimates from Chicago-based analysts AgResource.

At that level of production farm prices would average $5.75 a bushel, against the US Agriculture Department's estimate of $6.20 to $7 for the 1997 harvest; the US soyabean stockpile would rise slightly, to 399m bushels.

March soyabean futures on the Chicago Board of Trade were 2¾ cents lower in early trading at $6.63¾ a bushel, largely on fears over weakness in Asia's financial markets.

Analysts said yesterday they saw the Asian financial crisis acting as a bearish factor for world wood pulp prices for the first half of 1998, with Goldman Sachs forecasting an average for the year of $570 a tonne.

In the middle of 1997 some pulp industry forecasts had projected $700 a tonne for 1998. On the OMLX in London yesterday the March pulpex contract traded slightly lower, at $478.25.

Copper, nickel to suffer most from Asian turmoil

By Kenneth Gooding, Mining Correspondent

Copper and nickel are the base metals most likely to suffer big drops in demand because of the Asian economic crisis. Aluminium is the least exposed, according to Alan Williamson, analyst at Deutsche Morgan Grenfell, part of Deutsche Bank.

Copper prices dropped to their lowest in four years this week and those of aluminium, nickel and zinc to their lowest for 12 months because of poor sentiment caused by the Asian situation. Analysts believe the slowdown in Asia is likely to lead to a fall in construction activity and in car and truck output – two critical sectors for metals demand.

Mr Williamson warns of further price weakness for London Metal Exchange metals in coming weeks. Analysts at Macquarie Equities, part of the Australian banking group, agree. "We expect the first quarter of this year to be the worst for these metals," they say in their Commodities Report.

In Deutsche's Metal Window publication, Mr Williamson says that, even in those Asian countries where physical demand for metals remains firm, concern about the fragility of the banking systems is making some traders and producers unwilling to extend credit to Asian consumers. This has led to metal being diverted to western Europe and North America "and this has had a further depressing effect on sentiment in these regions even though local demand remains strong".

The Macquarie analysts, Jim Lennon and Adam Rowley, suggest Asian consumers unable to obtain foreign exchange or letters of credit are having to draw metal from stocks they built up in the last quarter of 1997.

"The outlook for Asian demand for the year as a whole still appears to be deteriorating and doubts continue to be expressed about the ability of Asian countries to export their way out of trouble," they say.

"If exports are increased to third country markets, that is at the expense of products produced in those countries and reduced economic growth and direct metals demand in those countries – on a global basis exporting is a zero-sum game."

Macquarie says it is almost impossible to reach a definitive view in such rapidly changing circumstances, but it believes the Asian slowdown will knock 1 to 2 percentage points off global growth rates for all LME metals compared with 1997.

"While this weaker demand might be somewhat offset by strong European and US demand, we question whether this will be enough to prevent any of the main metal markets sliding into supply surplus in 1998," say Mr Lennon and Mr Rowley.

"Metals prices will bounce from present depressed levels but further weakness is on the cards as the full extent of the Asian slowdown manifests itself."

Mr Williamson says analysts are reducing their forecasts for the performance of the South Korean economy almost continuously. He points out that South Korea is the fourth biggest aluminium, copper and zinc consumer outside the former Communist bloc and the fifth biggest user of nickel.

His analysis shows Asia (excluding China) accounted for nearly 34 per cent of western copper consumption and nearly 60 per cent of growth in demand over the past 10 years. It accounted for nearly 39 per cent of western consumption of nickel and almost 58 per cent of the increase in demand since. In contrast, only 26.6 per cent of aluminium demand and 42 per cent of the rise in demand came from Asia.

Base metals exposure to Asia

	Copper	Aluminium	Lead	Zinc	Nickel
Metal consumption 1996 (tonnes 000)					
Asia	3,605	4,657	1,273	1,922	338
Rest of the world	7,039	12,842	3,853	4,282	532
Total	10,644	17,499	5,126	6,204	868
% Asia	33.9	26.6	24.8	31.0	38.7
Growth in consumption 1986-96 (tonnes 000)					
Asia	1,682	1,948	506	518	164
Rest of the world	1,178	2,748	459	735	120
Total	2,860	4,692	965	1,254	284
% Asia	58.8	41.8	52.4	41.4	57.87

Source: CRU, WBMS, Deutsche Morgan Grenfell

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1444-5	1472-2.5
Previous	1440-41	1468-69
High/low		1490/1464
AM Official	1444-4.5	1472-3
Kerb close		1472-3
Open int.	267,285	
Total daily turnover	78,139	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1313-8	1333-5
Previous	1325-35	1346-48
High/low		1335/1330
AM Official	1300-05	1325-35
Kerb close		1325-30
Open int.	5,245	
Total daily turnover	1,308	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	541.5-2.5	548.5-9.5
Previous	570.5-71.5	572-73
High/low		567/543
AM Official	547-8	553-4
Kerb close		545-6
Open int.	31,692	
Total daily turnover	9,084	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	5580-90	5680-90
Previous	5670-80	5765-70
High/low		5760/5640
AM Official	5565-70	5665-75
Kerb close		5680-85
Open int.	58,354	
Total daily turnover	23,420	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5090-100	5120-25
Previous	5220-30	5240-50
High/low		5230/5100
AM Official	5130-35	5165-70
Kerb close		5105-10
Open int.	14,493	
Total daily turnover	4,972	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1051.5-2.5	1068-9.5
Previous	1068.5-69.5	1091-92
High/low		1080/1066
AM Official	1046-7	1072-3
Kerb close		1077-8
Open int.	76,614	
Total daily turnover	23,782	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	1630-31	1660-61
Previous	1640-41	1669.5-70.5
High/low		1672/1648
AM Official	1628.5-9.0	1658-60
Kerb close		1662-3
Open int.	148,788	
Total daily turnover	47,358	

■ LME AM Official £/$ rate: 1.6143
LME Closing £/$ rate: 1.6185
Spot: 1.6239 3 mths: 1.6157 6 mths: 1.6083 9 mths: 1.6011

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	74.00	-0.15	74.00	73.35	516	755
Feb	74.40	-0.40	74.45	73.70	97	2,577
Mar	74.80	-0.50	75.20	73.80	4,107	35,930
Apr	75.25	-0.60	75.20	75.10	49	1,639
May	75.75	-0.55	76.00	74.90	326	5,580
Jun	76.20	-0.60	76.20	76.20	56	1,696
Total					5,770	60,815

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	278.40-278.80		
Opening	278.10-278.50		
Morning fix	279.50	172.574	409.339
Afternoon fix	278.90	172.320	410.541
Day's High	277.50-277.90		
Day's Low	279.05-279.45		
Previous close	279.30-279.80		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	3.79	6 months	3.78
2 months	3.78	12 months	3.78
3 months	3.78		

Silver Fix	p/troy oz.	US cts equiv.
Spot	342.55	553.25
3 months	343.00	551.50
6 months	343.40	549.75
1 year	341.85	546.25

Gold Coins	$ price	£ equiv.
Krugerrand	281.5-284.5	173.5-175.5
Maple Leaf	–	–
New Sovereign	66-69	40.5-42.5

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	278.3	-0.2	–	–	–	–
Feb	278.9	-0.2	280.4	278.3	33,277	103.7k
Apr	280.4	-0.3	281.5	280.0	2,873	16,782
Jun	282.1	-0.4	282.5	282.0	998	12,360
Aug	283.9	-0.5	284.5	284.5	77	5,520
Oct	285.6	-0.6	–	–	31	3,085
Total					38,070	187,969

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	365.1	+1.0	363.0	363.0	12	215
Apr	361.6	–	362.0	359.0	1,234	10,245
Jul	358.8	–	359.5	358.0	413	605
Oct	357.6	–	357.0	357.0	154	161
Total						

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	224.40	–	224.40	221.00	101	3,229
Jun	221.15	–	221.15	220.00	20	577
Sep	218.15	–	218.00	218.00	–	4
Total						

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	544.0	-15.3	566.0	566.0	14	25
Mar	547.5	-15.3	564.0	540.5	16,067	63,487
May	548.0	-15.3	562.0	541.0	347	7,665
Jul	547.7	-15.1	553.0	541.5	271	7,660
Sep	547.5	-15.8	545.0	544.5	77	1,638
Dec	547.0	-15.8	555.0	540.0	155	8,658
Total					16,989	95,253

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Feb	16.58	-0.05	16.70	16.30	47,138	94,354
Mar	16.75	-0.10	16.90	16.52	34,720	63,684
Apr	16.98	-0.08	17.12	16.74	9,868	32,712
May	17.21	-0.05	17.26	16.96	5,486	26,161
Jun	17.41	-0.05	17.50	17.20	8,372	37,112
Jul	17.60	-0.03	17.63	17.43	1,878	20,886
Total					129,796	434,377

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Feb	15.35	-0.15	15.50	15.10	17,286	47,879
Mar	15.47	-0.10	15.62	15.25	23,543	71,679
Apr	15.70	–	15.81	15.48	4,980	22,572
May	15.81	-0.15	15.96	15.68	1,400	15,188
Jun	16.02	-0.12	16.16	15.85	3,029	20,431
Jul	16.30	+0.01	16.32	16.08	2,965	9,980
Total					n/a	n/a

■ HEATING OIL NYMEX (42,000 US galls; c/US galls)

	Latest price	Day's change	High	Low	Vol	Open int
Feb	46.30	-0.40	46.70	45.61	18,507	58,552
Mar	46.80	-0.40	47.10	46.20	9,453	27,070
Apr	47.30	-0.25	47.55	46.65	4,250	14,136
May	47.70	-0.10	47.95	47.10	2,289	9,445
Jun	48.05	-0.05	48.25	47.50	1,732	13,735
Jul	48.65	+0.15	48.80	48.20	1,717	6,846
Total					41,609	182,802

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	141.75	–	139.25	136.50	11,075	7,033
Feb	140.75	-3.00	141.75	138.50	14,699	28,607
Mar	142.75	-3.25	143.50	140.50	3,670	12,816
Apr	143.75	-3.00	145.00	142.50	2,338	7,995
May	146.75	-2.75	147.50	145.00	1,223	3,370
Jun	148.50	-2.75	149.25	146.75	1,345	11,864
Total					37,852	95,788

■ NATURAL GAS IPE (10,000 therms; pence per therm)

	Sett price	Day's change	High	Low	Vol	Open int
Feb	13.450	+0.035	13.480	12.880	170	3,415
Mar	10.600	+0.200	10.600	10.470	275	2,200
Apr						n/a

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)

	Latest price	Day's change	High	Low	Vol	Open int
Feb	2.015	-0.021	2.030	1.985	19,672	39,711
Mar	2.015	-0.021	2.030	2.000	7,146	27,206
Apr	2.020	-0.022	2.030	2.016	4,582	13,807
May	2.035	-0.020	2.050	2.035	1,968	10,824
Jun	2.065	-0.007	2.080	2.060	916	9,769
Jul	2.090	+0.003	2.100	2.085	711	10,401
Total						192,143

■ UNLEADED GASOLINE
NYMEX (42,000 US galls; c/US galls)

	Latest price	Day's change	High	Low	Vol	Open int
Feb	52.30	-0.51	53.00	51.80	15,640	36,682
Mar	52.60	-0.50	53.30	52.05	10,803	17,628
Apr	55.00	-0.40	55.55	54.65	5,140	14,517
May	55.25	-0.15	55.60	54.70	3,831	11,407
Jun	54.80	-0.25	55.30	54.50	1,343	8,273
Jul	54.40	-0.05	54.40	54.40	530	7,279
Total						103,547

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	79.70	+0.05	80.00	79.95	13	68
Mar	81.70	-0.20	82.15	81.70	24	3,018
May	83.70	-0.20	84.10	83.60	150	3,646
Jul	85.70	-0.20	86.00	86.00	15	492
Sep	81.00	–	–	–	–	38
Total					241	8,381

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	321.75	+0.75	324.00	319.25	11,579	58,821
May	328.75	+0.50	331.00	326.50	2,995	13,793
Jul	336.25	–	338.50	334.00	3,060	20,811
Sep	343.50	+2.50	344.00	343.00	137	1,158
Dec	354.50	+2.50	355.00	352.00	264	2,961
Jul	358.00	–	358.00	357.00	25	23
Total					18,055	97,587

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	258.25	-1.50	260.75	257.00	24,987	184,223
May	264.25	-2.00	266.75	263.00	4,647	55,260
Jul	268.75	-1.50	271.25	267.25	6,470	63,622
Sep	268.50	-2.00	270.00	268.00	433	9,064
Dec	272.00	-1.75	273.75	271.00	3,329	35,516
Mar	278.00	-1.75	278.75	277.50	70	1,643
Total					39,9563	30,802

■ BARLEY LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	74.00	-0.25	74.00	74.00	2	45
Mar	76.25	-0.65	77.00	76.50	15	1,410
May	77.25	-0.65	–	–	–	20
Sep	78.25	+0.25	–	–	–	6
Total					42	1,623

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	664.75	+0.75	665.75	657.50	2,342	3,627
Mar	665.25	-0.50	668.00	657.25	26,554	59,971
May	669.75	+0.25	671.00	662.50	4,944	26,760
Jul	672.25	-0.50	673.50	664.00	5,056	27,054
Aug	671.50	-0.50	673.50	667.00	244	4,676
Sep	657.50	-1.50	658.00	655.00	25	387
Total					41,231	133,797

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	24.38	-0.22	24.60	24.28	2,005	1,681
Mar	24.67	-0.19	24.86	24.51	15,719	57,545
May	24.97	-0.16	25.08	24.83	4,120	19,052
Jul	25.08	-0.13	25.18	25.00	3,433	14,263
Aug	25.02	-0.08	25.10	24.95	667	4,104
Sep	24.93	-0.07	24.96	24.90	63	1,710
Total					26,747	101,528

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	196.7	+1.3	196.9	193.0	4,424	9,304
Mar	194.6	+1.0	195.0	191.0	10,222	45,216
May	194.6	+1.1	195.0	190.9	4,369	25,958
Jul	196.6	+0.6	196.7	192.8	2,470	17,935
Aug	197.3	+0.7	197.0	193.5	807	6,904
Sep	197.0	-0.1	196.0	194.0	812	4,311
Total					23,336	114,589

■ POTATOES LIFFE (20 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	85.0	-2.5	–	–	–	–
Apr	105.0	-2.5	109.0	105.0	20	1,044
May	115.0	-2.5	–	–	–	62
Jun	125.0	-2.5	–	–	–	–
Nov	54.0	–	–	–	–	–
Total					20	1,149

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	1180	-25	1190	1180	27	649
Feb	1175	-25	1175	1175	8	193
Mar	1190	-30	1200	1185	22	151
Apr	1255	-20	1265	1260	22	478
Jul	1120	-30	1120	1120	3	123
Total					86	1,649

	Close	Prev
BFI	1221	1224

PULP AND PAPER

■ PULPEX OMLX (US$: 24 air dry tons)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	478.25	-7.75	478.25	473.00	49	418
Jun	497.00	-8.00	497.00	491.00	56	279
Total					120	709

FUTURES DATA
All futures data supplied by CMS.

Tea from The Tea Brokers' Association
Landed: There was very strong and active demand. Assams advanced 20 pence and often more for coloury brighter types. East Africans appreciated by between 10 pence and 20 pence. **Offshore:** There was good demand at dearer rates. **Landed price indications** (last week's figures in brackets): best available, 204p (180p); good, 189p (171p); good medium, 180p (166p); medium, 170p (152p); low medium, NQ. The highest price realised this week was 204p for an Assam PF.

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	1024	-24	1042	1024	3,845	63,687
May	1050	-23	1068	1050	1,656	25,609
Jul	1071	-23	1084	1075	175	12,370
Sep	1093	-21	1110	1092	321	23,864
Dec	1119	-21	1137	1121	688	27,997
Mar	1144	-20	1157	1145	948	17,617
Total						

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	1541	–	1558	1535	6,136	35,354
May	1577	-20	1594	1570	1,507	23,088
Jul	1606	-24	1624	1600	366	5,576
Sep	1632	-24	1653	1630	158	5,542
Dec	1664	-24	1680	1670	576	9,561
Mar	1691	-40	1700	1698	484	9,061
Total					9,441	91,860

■ COCOA (ICCO) (SDR's/tonne)

	Price	Prev. day
Jan 9		
Daily	1243.70	1261.19

■ COFFEE LIFFE (5 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	1758	-2	1775	1750	367	3,278
Mar	1720	-25	1750	1710	2,633	25,523
May	1704	-21	1730	1695	563	9,287
Jul	1694	-21	1712	1685	102	1,887
Sep	1689	-21	1690	1685	13	837
Nov	1689	-21	1695	1688	10	38
Total						

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	159.70	–	163.00	156.00	6,931	16,245
May	155.50	-2.05	157.55	151.00	1,882	6,265
Jul	150.75	-1.75	151.50	147.50	255	2,893
Sep	144.50	-2.25	144.50	143.25	171	1,490
Dec	140.00	-2.00	140.00	139.00	83	1,245
Mar	136.50	-2.25	136.75	136.75	12	300
Total					9,134	28,488

■ COFFEE (ICO) (US cents/pound)

Jan 9		Prev. day
Comp. daily	127.53	129.79
15 day average	127.79	128.29

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	298.5	-4.3	302.5	297.5	5,053	21,907
May	301.9	-4.5	306.0	301.0	2,244	8,673
Aug	304.5	-3.9	307.0	304.5	239	5,037
Oct	300.0	-3.5	302.2	300.0	95	4,855
Dec	303.2	-1.7	304.5	303.0	31	215
Total						

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	11.46	–	11.72	11.45	13,020	88,058
May	11.26	-0.29	11.46	11.25	5,971	38,060
Jul	11.12	-0.21	11.25	11.12	2,326	28,458
Oct	11.13	-0.19	11.25	11.12	1,408	31,510
Mar	11.11	-0.16	11.21	11.11	317	7,055
May	11.11	-0.11	11.18	11.11	155	1,468
Total					24,010	197,857

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	65.58	-1.84	68.05	65.52	10,806	38,458
May	67.01	–	67.38	66.92	3,660	14,857
Jul	68.33	-0.35	68.73	68.30	2,700	15,174
Oct	70.78	-0.32	70.93	70.70	398	1,693
Dec	72.05	-0.09	72.20	71.93	2,302	14,787
Mar	73.08	-0.62	73.05	73.05	91	589
Total					9,096	85,493

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	86.15	+7.25	85.00	79.00	133	308
Mar	89.65	+7.60	90.00	83.00	3,063	19,976
May	90.25	+5.00	90.25	86.00	419	6,740
Jul	93.45	+5.00	93.45	90.00	173	4,180
Sep	96.45	+5.00	96.45	96.45	97	2,018
Nov	99.20	+5.00	99.20	99.20	51	1,819
Total					3,306	37,360

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Jan 12	Jan 9	month ago	year ago
1721.3	1733.3	1783.0	1891.8

■ CRB Futures (Base: 1967 = 100)

Jan 9	Jan 8	month ago	year ago
223.33	224.90	–	–

■ GSCI Spot (Base: 1970 = 100)

Jan 9	Jan 8	month ago	year ago
168.46	169.32	186.44	223.46

LME WAREHOUSE STOCKS (tonnes)

Aluminium	-2,500	to	616,925
Aluminium alloy	+20	to	42,660
Copper	-850	to	341,000
Lead	-250	to	117,075
Nickel	-324	to	65,814
Zinc	-775	to	489,075
Tin	+45	to	13,145

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Feb	64.175	-0.075	64.550	64.050	5,899	41,909
Apr	66.550	-0.200	67.100	66.475	5,559	32,390
Jun	67.275	+0.200	67.600	67.050	2,213	20,252
Aug	68.325	+0.150	68.700	68.150	691	7,534
Oct	70.625	+0.075	70.825	70.400	272	2,517
Dec	71.600	-0.100	71.750	71.450	107	489
Total					14,792	105,106

■ LEAN HOGS CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Feb	57.600	+0.575	58.325	57.025	3,626	21,862
Apr	56.325	+0.650	56.850	55.800	2,936	11,795
Jun	64.125	+0.675	64.850	63.500	1,315	7,522
Jul	63.875	+0.750	64.600	63.125	513	2,392
Aug	62.000	+0.500	62.350	61.400	109	814
Oct	58.875	+0.325	59.250	58.500	107	917
Total					8,627	45,816

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Feb	50.450	-1.075	51.900	50.250	1,689	5,356
Mar	49.375	-1.125	51.150	49.250	549	1,560
May	50.625	-0.975	52.050	50.500	69	1,158
Jul	51.250	+0.425	51.350	50.600	52	754
Aug	47.050	+0.525	47.550	47.050	11	129
Total					2,359	8,990

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME	Feb	May	Feb	May
1400	69	106	6	26
1500	13	51	50	69
1600	1	20	137	136
■ COPPER (Grade A) LME	**Feb**	**May**	**Feb**	**May**
1600	65	114	16	39
1700	16	62	68	85
1800	2	29	153	151
■ COFFEE LIFFE	**Jan**	**Mar**	**Jan**	**Mar**
1650	113	139	43	85
1700	83	114	63	110
1750	63	96	93	142
■ COCOA LIFFE	**Mar**	**May**	**Mar**	**May**
1025	28	60	29	35
1050	18	47	44	47
1075	12	38	63	63
■ BRENT CRUDE IPE	**Feb**	**Mar**	**Feb**	**Mar**
1600	-	25	57	-
1650	-	15	-	127
1700	-	13	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

		+or-
Dubai	$13.04-3.09	-0.305
Brent Blend (dated)	$15.00-5.03	-0.365
Brent Blend (Feb)	$15.40-5.43	-0.365
W.T.I.	$16.60-6.62	-0.33

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$172-174	-2
Gas Oil	$141-143	-5
Heavy Fuel Oil	$73-75	-2
Naphtha	$156-157	-1
Jet fuel	$162-164	-2
Diesel	$147-148	-3.5

■ NATURAL GAS (Pence/therm)

Bacton (Feb)	13.40-13.50	

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER

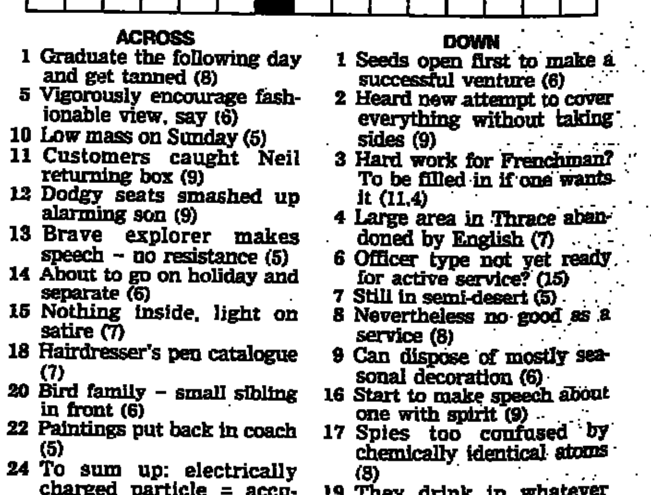
Gold (per troy oz)♣	$278.65	-0.90
Silver (per troy oz)♣	551.00c	-23.0
Platinum (per troy oz.)	$361.00	-0.60
Palladium (per troy oz.)	$216.50	+9.50
Copper	82.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	20.61r	
Tin (New York)	250.5	-2.0
Cattle (live weight)	90.22p	-1.97*
Sheep (live weight)	86.60p	-3.43*
Pigs (live weight)†	59.42p	-10.65*
Lon. day sugar (raw)	$288.10	-2.50
Lon. day sugar (wte)	$299.40	-2.20
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£109.00	
Wheat (US Dark North)	Unq	
Rubber ♥	n/a	
Rubber ♥	n/a	
Rubber (KL RSS No1)	257.0z	+3.0
Coconut Oil (Phil)§	610.0y	-20.0
Palm Oil (Malay.)§	585.0	
Copra (Phil)§	$395.0y	
Soyabeans (US)	182.0	-1.5
Cotton Outlook'A' index	72.05c	-0.60
Wooltops (64s Super)	385p	+5

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. y Jan/Feb. w Jan. ♥London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. †Based on n/a head of pigs sold.

JOTTER PAD

CROSSWORD

No.9,579 Set by HIGHLANDER



ACROSS

1 Graduate the following day and get tanned (8)
5 Vigorously encourage fashionable view, say (6)
10 Low mass on Sunday (5)
11 Customers caught Neil returning box (9)
12 Dodgy seats smashed up alarming son (9)
13 Brave explorer makes speech – no resistance (5)
14 About to go on holiday and separate (6)
15 Nothing inside, light on satire (7)
18 Hairdresser's pen catalogue (7)
20 Bird family – small sibling in front (6)
22 Paintings put back in coach (5)
24 To sum up: electrically charged particle = accuracy (9)
25 Drug for French on Rhode Island – they're a miscellaneous lot (9)
26 Antelope as prepared in New York? The reverse (5)
27 They may collapse in Rugby where dons collect unusual sum (6)
28 Blood reportedly gone off club (8)

DOWN

1 Seeds open first to make a successful venture (6)
2 Heard new attempt to cover everything without taking sides (9)
3 Hard work for Frenchman? To be filled in if one wants it (11,4)
4 Large area in Thrace abandoned by English (7)
6 Officer type not yet ready for active service? (15)
7 Still in semi-desert (5)
8 Nevertheless no good as a service (8)
9 Can dispose of mostly seasonal decoration (6)
16 Start to make speech about one with spirit (9)
17 Spies too confused by chemically identical atoms (8)
19 They drink in whatever can be turned to personal advantage (6)
20 Constable is unique (7)
21 Without success at home, one is in the lead (2,4)
23 Awake in a prison (5)

Solution to Saturday's prize puzzle on Saturday January 24.
Solution to yesterday's prize puzzle on Monday January 26.

FT MANAGED FUNDS SERVICE

Offshore Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

BERMUDA (REGULATED)(**)

GUERNSEY (FSA RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (FSA RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (FSA RECOGNISED)

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

American Phoenix Investment Portfolios (a)

Foreign & Colonial Emerging Markets Ltd (a)

Morgan Stanley Sicav - Contd.

ACM Offshore Funds - Contd.

Credit Suisse Asset Mgmt Funds - Contd.

Merrill Lynch Asset Management - Contd.

Swiss Bank Corporation - Contd.

Eurolife Assurance Group

OFFSHORE INSURANCES

LUXEMBOURG (REGULATED)(**)

ACM Offshore Funds

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	+ or -	52 week high	low	Volume '000s	Yld Gr's	P/E
Allied Domecq		532xd	+10	584	407½	2,638	4.6	13.6
Bulmer (HP)		376xd	-2½	628	375½	-	4.9	11.7
Burn St Dist		35½	-3	79½	35½	12	12.0	12.4
Diageo		570	-4½	638½	423	4,604	3.2	17.4
Glenmorangie A		875xd	----	1040	640	-	7.9	20.9
B		805xd	----	1140	925	-	0.9	44.7
Highland		288½	-4	380	280	118	3.9	13.3
5¼pc Cnv Bds		90xd	----	98½	85½	-	6.4	-
Kirin Y		443	-4½	684¼	416½	-	1.3	-
Matthew Clark		172½xd	-2	335	157	146	14.5	5.6
Merrydown		58½	-1	108½	49½	3	6.9	-
Seagram C$		£19⅛	-⅛	£25⅞	£18⅛	-	1.4	-

BANKS, RETAIL

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

CONSTRUCTION

[illegible]

CONSTRUCTION - Cont.

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Cont.

[illegible]

ENGINEERING, VEHICLES

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

EXTRACTIVE INDUSTRIES - Cont.

[illegible]

FOOD PRODUCERS

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HEALTH CARE - Cont.

[illegible]

HOUSEHOLD GOODS & TEXT

[illegible]

INSURANCE

[illegible]

INVESTMENT TRUSTS

Approved by the Inland Revenue

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

INV TRUSTS SPLIT CAPITAL

Approved by the Inland Revenue

[illegible]

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

MEDIA - Cont.

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

RETAILERS, GENERAL - Cont.

SUPPORT SERVICES

TRANSPORT - Cont.

WATER

AIM

AIM - Cont.

AMERICANS

CANADIANS

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
Anglo Am Ind R		£23¼		*£27⅞	£21⅝	–	3.0	ϕ
Barlow	♣	£4⅞	–⅛	59⅞	£4⅞	–	3.3	ϕ
Gold Flds Prop R		111½	–1¼	187	110½	–	7.2	9.2
SA Brews	†	£13⅜	–1⅞	£23⅞	£13⅜	–	2.7	–
Standard Bank		£23⅝	–1⅞	£30	£23⅝	–	2.3	–
Tiger Oats		780	–40	1180	780	–	2.4	ϕ
Tongaat-Hulett		780½xd	–1¼	780	719½	–	2.3	ϕ

TRADED INDEX SECURITIES

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
FTSE 100 TRAINS		£5219bd	—	£52400	£472	–	–	–

PROPERTY - Cont.

SUPPORT SERVICES - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

TELECOMMUNICATIONS

TOBACCO

TRANSPORT

GUIDE TO LONDON SHARE SERVICE

Prices and trading volumes for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. For FTSE 100 index constituents and reserves marked † in the Trading Volume table on the LSE page, last trade prices at or prior to 4:30pm market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading System ("SETS"). Highs and lows are based on intra-day mid-prices/last trades over a rolling 52 week period.

Trading Volumes are end of day accumulated totals. Dashes indicate that either no trade has taken place during the day or the data is not available for those particular securities. Volumes shown for foreign securities are based on London trading.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ϕ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange
- ♣ Free annual/interim report available, see details below.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
z Dividend yield includes a special payment
F Yield based on prospectus or other official estimates for 1996-97.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1997.
K Yield based on prospectus or other official estimates for 1996
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1997-98.
N Dividend is paid in whole or part as a FID (Foreign Income Dividend)
R Forecast annualised yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xf ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1485 a year for each security shown, subject to the Editor's discretion

♣ FT Free Annual Reports Service

You can obtain the current annual/interim report of any company annotated with ♣. Please quote the code FT8693. Ring 0181 770 0770 (open 24 hours including weekends) or Fax 0181 770 3822. Reports may also be ordered via the internet at http://www.icbinc.com. Reports will be sent the next working day, subject to availability.

FT Company Focus / Focus Plus

Comprehensive 10-18 page report available on this company, containing key news stories from the last year, latest survey of City profit forecasts and investment recommendations, 5 year financial and share price performance review, balance sheet and profit and loss data, plus recent Stock Exchange announcements.
Company Focus (FT news) £8.45.
Focus Plus (FT and Investors Chronicle news) £10.95.
To order, call 0121 200 4678.
Reports published by ShareFinder.

FT Cityline

Up-to-the-second share prices are available by telephone from the FT Cityline service. See Monday's share price pages for details.
Calls are charged at 50p per minute at all times.
An international service is available for callers outside the UK, annual subscription £250 stg. Please consult your financial adviser and verify financial pricing information obtained via FT Cityline before making any investment decision.
All access to and use of FT Cityline is subject to FT Cityline terms and conditions - your copy will be sent free on request.
Call 0171 873 4378 for more information on FT Cityline.

The share prices printed on these pages are also available on the internet at http://www.FT.com.

LONDON STOCK EXCHANGE

Asia weakness sees Footsie under big pressure

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

All the gains garnered by the UK equity market since Christmas were virtually wiped out yesterday as London responded to events in New York last Friday and Asia yesterday.

But London did manage a recovery, which ran concurrently with the Dow's performance.

Wall Street kicked off under heavy pressure, and posted another three-figure fall shortly after trading commenced, before stabilising and embarking on a strong rally. At its best, as London dealers closed their trading books after a traumatic session, the Dow Jones Industrial Average was up around 30 points.

The startling recovery by Wall Street was attributed to a growing feeling that the US might be poised to relax interest rate policy. "Futures activity in Chicago suggests the next move in short-term rates is down, which has to be seen as good news for Wall Street," said a senior salesman at one of the big London securities houses.

The FTSE 100 index dropped 150 points at worst, sliding back below the 5,000 mark on numerous occasions to hit 4,988.3, before stabilising and finishing a net 69.5 down at 5,068.8. The second-line and smaller companies indices came off their worst levels, but not to the same extent as the leaders, suggesting that the sell-off in the stock market was more determined than many thought.

The FTSE 250 index ended 65.0 off at 4,799.6, having hit a low of 4,790.1 in mid-afternoon. The SmallCap index lost 19.0 at 2,329.2; at its worst the index fell 21 points to 2,327.2.

Dealers pointed the finger of blame for the big falls across global markets squarely at Asian markets, which suffered further alarming losses yesterday.

The worst falls were in Hong Kong where the Hang Seng index plunged around 12 per cent before settling almost 9 per cent lower, still burdened by worries about the problems encompassing Peregrine, the Hong Kong stockbroking firm.

Tokyo lost 2.2 per cent, Thailand 4.5 per cent and Singapore 8.75 per cent. A 3.5 per cent rally in Seoul and a 2 per cent gain in Jakarta did little to calm international investor concerns about the region.

Once again, the Hong Kong-sensitive areas of the London market bore the brunt of the market's weakness for much of the trading session, although the two banks closely linked with Hong Kong – Standard Chartered and HSBC – staged a remarkable fight-back late in the day.

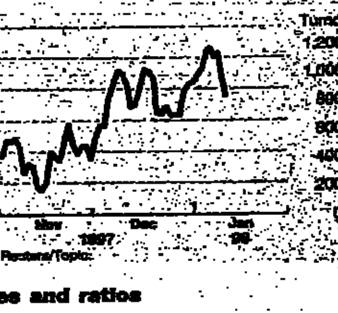
The rallies in those stocks were linked to Wall Street's recovery.

London dealers told clients to sit back and wait for the latest Asian jitters to calm down. "As always, the best thing would be to buy the quality stocks on any big falls," was the view put forward by one of the top traders at a UK securities house.

He insisted that London remained attractive to international investors because of its low inflation, good growth and high liquidity factors.

Turnover in the market was an unremarkable 751.5m shares.

FTSE All-Share Index



Equity shares traded

Source: Reuters/Topic

Indices and ratios

FTSE 100	5068.8	-69.5	FT 30	3283.9	-37.7
FTSE 250	4799.6	-65.0	FTSE Non-Fins p/e	20.04	20.30
FTSE 350	2444.7	-33.5	FTSE100 Fut Mar	5082.0	-81.0
FTSE All-Share	2389.32	-31.83	10 yr Gilt yield	6.04	6.08
FTSE All-Share yield	3.25	3.20	Long gilt/equity yld ratio	1.87	1.91

Best performing sectors

1 Water .... +0.7
2 Retailers: Food .... +0.4
3 Utilities .... -0.1
4 Electronic & Elec .... -0.1
5 Electricity .... -0.1

Worst performing sectors

1 Diversified Inds .... -3.0
2 Chemicals .... -2.5
3 Extractive Inds .... -2.3
4 Engineering .... -2.3
5 Investment Trsts .... -2.3

Standard forecasts chopped

By Peter John, Joel Kibazo, Martin Brice and Melanie Senior

An 8.6 per cent slide in the Hang Seng index was likely to make any stock associated with Asia look vulnerable. Add a clutch of broker downgrades and big falls for Standard Chartered were a certainty.

The shares were down more than 10 per cent in early trading with brokers including Lehman Brothers and Goldman Sachs assessing the impact of the "Asian contagion" on the bank, which generates two-thirds of its profits in the region.

Lehman cut its 1997 profit forecast to £775m from £925m and its 1998 estimate to £725m from £1.08bn. The downgrades reflected expectation that Standard will have to make provisions of around 2 per cent on its loan portfolio. But Lehman said recent sell-offs in the shares were over-reacting the crisis.

The broker is at the bottom of a falling range of forecasts. Elsewhere, Goldman "sharply" reduced its numbers to reflect "the ongoing and apparently deepening crisis in Asia". The US broker cut its earnings per share estimate for 1997 by 7 per cent to 55.8p and its 1998 number by a swingeing 11 per cent to 55.9p.

Robert Fleming Securities cut to £870m and £860m for 1997 and 1998 and Panmure Gordon moved to £861m and £896m for the two years.

Nevertheless, a healthy two-way business developed later with even some bearish analysts arguing the selling was overdone. Richard Colman at Merrill Lynch said that while there were obvious concerns, Standard – which has millions of customers throughout the world – was now valued by the market at less than the Woolwich – "a south of England building society with only 2m customers".

Consequently, the shares rallied throughout the afternoon. They were 7 off just before the close and blipped up in the final seconds to close a net 2 higher at 549p.

Brokers were also cutting forecasts for HSBC, which is less exposed to the region in earnings terms but a heavily-weighted constituent of the Hang Seng. The shares closed 9 lower at £13.68.

Asda holds up

Asda was the only Footsie stock to show a gain throughout the entire session and helped make the retail sector one of only three to record an advance on the day.

Recent presentations to a series of City institutions have helped the stock move ahead in recent sessions and yesterday a strong trading statement from WM Morrison Supermarkets also helped sentiment and demand for Asda, and the shares closed 1½ ahead at 183¼p. Volume was 10m.

Morrison said like-for-like sales had risen 3.9 per cent in the 22 weeks to January 1998 and like-for-like sales for the year to date had climbed 2.5 per cent. The group also said takings in the five weeks to January 4 were 10.5 per cent higher than the same period a year ago. The figures were above market expectations and the shares rose 1½ to 231¼p.

In the rest of the sector, J Sainsbury advanced 10 to 490p, while T&S Stores firmed 4½ to 201¼p. However, Tesco followed the market and fell 4¼ to 494½p while two-way business in Safeway brought turnover of 7.1m with the shares easing to 342p.

Fashion retailer Next regained some of the ground lost earlier, boosted by an upbeat trading statement.

Next said retail sales for the 23 weeks to January 10 were up 23 per cent on last year while Next Directory sales were up 35 per cent. The figures were a relief to a sector that has been bracing itself for poor results following fears of a poor Christmas trading season. The shares closed down 7¼ at 727p.

Electrical goods retailer Dixons, which reports interim figures tomorrow, brushed aside fears that the company is to report poor Christmas sales. The shares rose 6 to 586p.

Two groups which publish trading statements today moved lower. Boots gave up 5 to 905p while Kingfisher fell 10 to 885p. It was also a poor day for Mulberry, which published interim figures that revealed increased losses. The shares eased 5½ to 64½p.

BP shrugged off further weakness in the oil price after support from Lehman Brothers and Goldman Sachs. The shares shed 5¾ to 772½p.

Lehman Brothers published an "overweight" recommendation on the UK majors and added BP to its list of recommended European stocks. The investment bank said recent falls in the oil sector had made the shares more attractive.

Also, BP features as one of nine UK stocks included in Goldman Sachs' list of 32 European shares it favours for 1998. It expects the stocks selected to show an average price rise of 18 per cent.

The other UK choices were Bass, Diageo, Glaxo Wellcome, National Westminster, Royal & Sun Alliance, Sema, the software group, Tesco and Unilever.

Among food producers, Tate & Lyle was the best performer in the FTSE 250 with ABN Amro Hoare Govett reported to have upgraded profit forecasts.

BSkyB dipped 12¾ to 432p after "sell" notes from BZW and Credit Lyonnais Laing. Also, one of BSkyB's set-top box producers, Pace Micro, said it would not be able to start producing decoders for the broadcaster's UK digital satellite launch before the end of May.

Pace Micro suffered one of the worst performances outside the FTSE 350 as it surrendered 8 to 37½p following its profits warning. It also announced it had fallen into loss in the first half, and talked of declining margins and a further loss in the second half.

One of the busiest stocks in the market was GEC which gained 4¼ to 399p in 17m traded. The company yesterday bought back 6.5m shares at 390p each.

Disappointment over share buy-back plans was said to be behind the Tomkins decline of 10 to 300p. The fall came despite an announcement of better-than-expected interim results which were said to have prompted upgrades for the full year from about £480m to £490m.

A profits warning also saw Servisair, the cargo and ground handling group, decline 65 to 200p.

Aim-traded jewellery group Theo Fennell lost 7 to 25½p after a profits warning.

B Elliott, the small engineering company, achieved one of the best performances in the market as the shares rose more than 27 per cent, or 20, to 93½p after it said it was in takeover talks.

Triad, the computer software and systems consultancy, gained 37 to 379½p after strong results and a bullish trading statement.

FT 30 INDEX

	Jan 12	Jan 9	Jan 8	Jan 7	Jan 6	Yr ago	*High	*Low
FT 30	3283.9	3321.6	3375.2	3359.9	3391.2	2761.9	3430.3	2668.8
Ord. div. yield	3.42	3.38	3.32	3.34	3.31	4.16	4.22	3.29
P/E ratio net	21.20	21.44	21.83	21.71	21.93	17.13	22.33	15.8
P/E ratio nil	20.91	21.15	21.53	21.42	21.63	16.97	22.02	15.71

FT 30 since compilation: high 3430.3 16/10/97; low 49.4 26/06/40. Base Date: 1/7/35

FT 30 hourly changes

Open	9	10	11	12	13	14	15	16	High	Low
3320.8	3259.1	3255.6	3246.3	3243.4	3252.4	3245.7	3272.4	3267.8	3320.8	3239.1

	Jan 12	Jan 9	Jan 8	Jan 7	Jan 6	Yr ago
SEAQ bargains	69,385	64,157	64,719	61,134	62,267	49,059
Equity turnover (£m)†	-	NA	2080.5	NA	1712.8	1281.4
Equity bargains†	-	NA	49,582	NA	49,764	27,012
Shares traded (ml)†	-	NA	641.8	NA	523.7	524.9

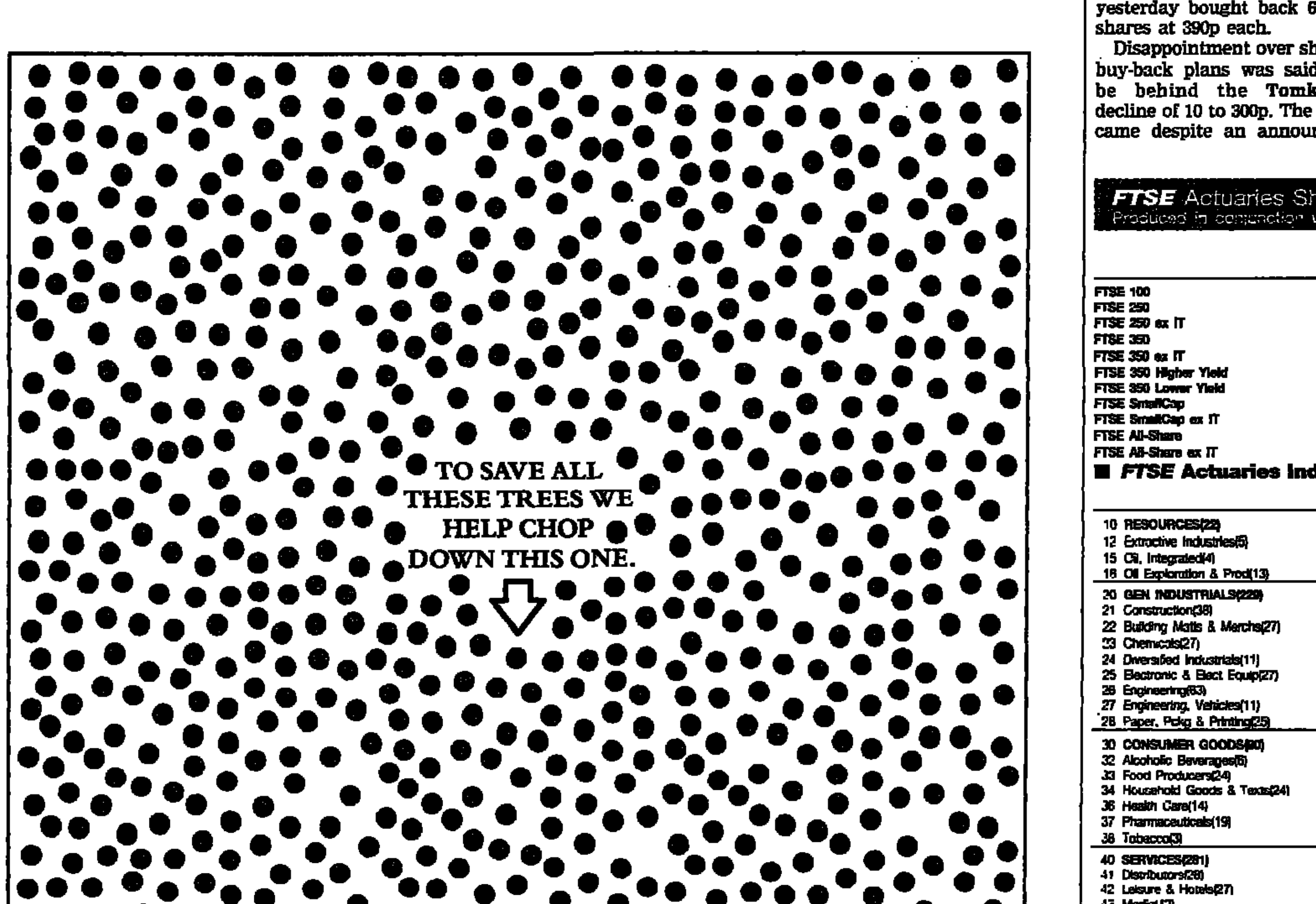
†Excluding intra-market and overseas turnover but including Crest turnover.

 *For 1997/98.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	314	Total Highs	132	Total contracts	27,395
Total Falls	1,522	Total Lows	164	Calls	11,102
Same	1,196			Puts	16,293

Jan 12 *Data based on Equity shares listed on the London Share Service.



FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	5030.0	5064.0	-99.0	5092.0	5011.0	12686	59070
Jun		5116.0	-105.0			0	25

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar		4882.0	-70.0			0	6440

■ FTSE 100 INDEX OPTION (LIFFE) (*5045) £10 per full index point

	4850 C	4850 P	4900 C	4900 P	4950 C	4950 P	5000 C	5000 P	5050 C	5050 P	5100 C	5100 P	5150 C	5150 P	5200 C	5200 P
Jan	213½	28½	175	35½	136½	48	98	63	69½	84½	47½	113½	[illegible]	[illegible]	[illegible]	[illegible]
Feb	365	141	326½	154	283½	173	252	193	230½	213½	199	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	409½	192	377	209	345	228½	314	250	284½	270	252½	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Apr	458	217	419	236	388	256	357	276	326	296	296	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun†			528	309½			493½	348½			389	[illegible]			[illegible]	[illegible]

Calls 2,484 Puts 1,944

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

	4875 C	4875 P	4925 C	4925 P	4975 C	4975 P	5025 C	5025 P	5075 C	5075 P	5125 C	5125 P	5175 C	5175 P	5225 C	5225 P
Jan	193½	34	153	44	116½	57½	84	74½	58	98½	38½	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Feb	339	148½	304½	164	272	180½	239	197½	212	220	186½	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	386	199½	354½	217½	324	236	294	255½	265½	276½	241	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun			504½	317½			446½	356			389½	[illegible]			[illegible]	[illegible]
Sept†			612½	366			554½	403			499½	[illegible]			[illegible]	[illegible]

Calls 2,410 Puts 7,261 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1997/98 High	1997/98 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
-	F.P.	-	95	93½	Abbey Nat Dublin II	93½		-	-	-	-
§140	F.P.	34.0	201½	148½	†SCO Techs	190½	-8	-	-	-	-
§85	F.P.	11.2	90	82½	†Bond Intl Sftw	82½		W-	-	-	22.9
-	F.P.	13.0	21½	16½	Boustead	19½		-	-	-	-
§25	F.P.	1.42	35½	29½	†General Inds	35½		-	-	-	-
135	F.P.	5.20	144½	139½	†Longmead	144½		L5.01	2.9	4.3	9.9
§110	F.P.	125.2	124½	105½	Marchpole	107½		R3.65	2.1	4.2	14.3
§128	F.P.	12.6	144½	137½	†Optoplast	144½		H3.07	3.4	2.7	11.3
§102	F.P.	23.2	102½	102½	†Razorback Vhcls	102½		-	-	-	-
§105	F.P.	36.7	115½	110½	SCS Upholstery	115½	+½	L2.7	2.0	2.9	21.7
§	F.P.	169.6	108¼	98½	Second Scot Natl	108¼	-¼	-	-	-	12.4
§	F.P.	101.4	101	99½	Do Zero Div Prf	101	+¼	-	-	-	-
*	F.P.	3.31	113½	103½	Wyndham Mtr	103½		u4.5	7.8	5.4	2.9

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

FTSE GOLD MINES INDEX

	Jan 9	% chg on day	Jan 8	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (34)	929.38	-2.4	952.15	1709.71	2.83	-	1997.49	903.02
■ Regional Indices								
Africa (15)	976.47	-2.9	1005.50	1949.65	7.08	17.53	2333.58	921.78
Australasia (7)	1132.70	+0.6	1126.12	1994.19	2.94	15.39	2124.22	933.63
North America (12)	894.97	-2.8	920.47	1609.54	1.45	33.28	1780.65	894.94

 Figures in brackets show number of companies. Basis US Dollars. Base Value 1000.00 31/12/92. † Partial. Latest prices were unavailable for this edition.

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Jan 12	Day's chge%	Jan 9	Jan 8	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	5068.8	-1.4	5138.3	5237.1	4107.3	3.20	2.65	2.07	18.89	1.37	2188.92
FTSE 250	4799.6	-1.3	4864.6	4880.0	4534.9	3.49	2.88	1.84	19.47	1.71	2033.04
FTSE 250 ex IT	4846.4	-1.2	4907.5	4920.1	4587.4	3.59	2.97	1.89	18.46	1.43	2059.90
FTSE 350	2444.7	-1.4	2478.2	2518.3	2043.7	3.26	2.69	2.02	18.99	0.70	2157.38
FTSE 350 ex IT	2449.0	-1.3	2482.0	2522.5	-	3.28	2.71	2.03	18.79	0.67	1108.37
FTSE 350 Higher Yield	2452.0	-1.1	2479.1	2515.5	1968.1	4.18	3.49	1.89	15.80	0.48	1842.65
FTSE 350 Lower Yield	2451.9	-1.6	2492.1	2535.2	2128.1	2.31	1.88	2.26	23.93	0.93	1763.63
FTSE SmallCap	2329.23	-0.8	2348.18	2345.17	2247.41	3.09	2.49	1.57	25.71	0.98	2004.24
FTSE SmallCap ex IT	2340.98	-0.5	2353.38	2345.85	2261.47	3.27	2.63	1.64	23.35	0.77	2033.67
FTSE All-Share	2389.32	-1.3	2421.15	2457.54	2018.14	3.25	2.68	1.99	19.33	0.70	2140.01
FTSE All-Share ex IT	2395.71	-1.3	2426.94	2463.88	-	3.27	2.71	2.01	19.00	0.67	1103.80

■ FTSE Actuaries Industry Sectors

	Jan 12	Day's chge%	Jan 9	Jan 8	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 RESOURCES(22)	4235.14	-1.6	4304.22	4373.68	4038.65	3.69	3.02	1.81	18.74	0.00	1917.30
12 Extractive Industries(5)	2817.38	-2.3	2884.54	2932.38	3905.30	5.02	4.42	1.88	13.27	0.00	888.38
15 Oil, Integrated(4)	4667.79	-1.5	4737.85	4815.54	4177.36	3.73	3.01	1.77	18.94	0.00	2174.79
16 Oil Exploration & Prod(13)	3361.78	-1.9	3425.91	3470.96	3465.92	1.67	1.38	2.32	32.14	0.00	2088.22
20 GEN INDUSTRIALS(229)	1965.60	-1.7	2000.35	2018.73	2002.84	3.89	3.32	2.01	15.98	0.22	1139.70
21 Construction(38)	1291.05	-1.3	1307.83	1308.78	1228.80	3.58	2.88	2.24	15.57	0.44	1138.21
22 Building Matls & Merchs(27)	1712.37	-1.4	1736.03	1753.09	1797.47	4.45	3.66	1.93	14.54	0.46	917.97
23 Chemicals(27)	2491.55	-2.5	2556.59	2594.45	2307.71	4.19	3.62	1.65	18.14	0.08	1257.13
24 Diversified Industrials(11)	1247.12	-3.0	1285.09	1300.74	1459.42	4.51	4.19	2.28	12.14	0.00	754.86
25 Electronic & Elect Equip(27)	2201.49	-0.1	2203.42	2198.29	2360.27	4.04	3.27	1.64	18.88	0.00	1201.90
26 Engineering(63)	2709.95	-2.3	2773.53	2808.63	2603.38	3.54	3.12	2.65	13.32	0.28	1725.50
27 Engineering, Vehicles(11)	3470.34	-0.5	3488.53	3522.88	3012.20	2.81	2.37	0.01	80.00†	0.00	1893.10
28 Paper, Pckg & Printing(25)	2108.78	-0.8	2125.38	2137.69	2586.37	4.82	3.96	1.96	13.26	0.48	937.07
30 CONSUMER GOODS(90)	4989.92	-1.6	5071.17	5149.32	3888.60	3.03	2.63	1.82	22.72	0.18	1948.89
32 Alcoholic Beverages(6)	3313.70	-0.3	3323.67	3337.74	2610.98	3.50	3.47	2.21	16.12	0.31	1276.68
33 Food Producers(24)	3323.89	-1.0	3356.57	3406.79	2680.50	3.24	2.68	1.93	19.98	0.09	1591.09
34 Household Goods & Texts(24)	3041.98	-1.0	3072.22	3112.84	2822.71	4.13	3.53	1.92	15.77	0.73	1265.33
36 Health Care(14)	2235.74	-0.9	2255.52	2268.38	2030.55	2.29	1.91	1.80	30.33	0.46	1415.16
37 Pharmaceuticals(19)	8343.53	-2.2	8530.52	8701.60	5574.46	2.23	1.87	1.70	33.00	0.03	2955.38
38 Tobacco(3)	4782.38	-1.8	4868.81	4929.13	3984.74	5.83	5.23	1.60	13.21	0.00	1306.27
40 SERVICES(281)	2867.15	-0.7	2887.34	2916.28	2612.21	2.93	2.37	1.92	22.18	2.16	1563.09
41 Distributors(28)	2494.33	-2.1	2548.42	2559.18	2848.50	3.74	3.05	2.04	16.39	0.00	967.29
42 Leisure & Hotels(27)	3426.25	-0.8	3455.29	3489.90	3297.23	2.80	2.24	2.16	20.68	16.84	1922.29
43 Media(42)	4093.13	-1.5	4156.06	4205.69	4206.71	2.49	2.06	1.92	26.21	0.00	1533.13
44 Retailers, Food(14)	2730.37	+0.4	2719.33	2784.47	2185.18	3.11	2.49	2.30	17.48	0.00	1836.84
45 Retailers, General(50)	2316.37	-0.8	2333.95	2344.67	2014.64	3.13	2.51	2.19	18.20	2.82	1398.55
46 Telecommunications(10)	2736.24	-0.3	2744.84	2783.61	2123.22	3.22	2.60	1.48	26.22	0.00	1328.69
47 Breweries, Pubs & Rest.(24)	3574.03	-0.4	3588.61	3601.93	3235.34	3.32	2.66	2.30	16.35	6.94	1809.33
48 Support Services(61)	3596.45	-0.4	3612.25	3608.20	2822.61	1.60	1.31	2.31	33.78	0.00	2356.84
49 Transport(25)	2905.53	-1.2	2939.54	2975.74	2719.46	3.52	2.87	1.29	27.56	1.55	1291.64
60 UTILITIES(23)	3645.99	-0.1	3647.88	3653.29	2563.31	4.31	3.45	1.71	16.92	2.38	1717.66
62 Electricity(9)	4053.33	-0.1	4058.80	4069.65	2820.48	4.71	3.77	2.12	12.55	0.00	2334.48
64 Gas Distribution(2)	2656.99	-0.8	2678.56	2673.85	1474.51	2.45	1.96	‡	‡	0.00	1521.83
68 Water(12)	3349.39	+0.7	3325.76	3332.16	2397.28	5.10	4.08	2.21	11.08	7.95	2032.97
69 NON-FINANCIALS(645)	2409.95	-1.2	2438.02	2465.58	2080.41	3.32	2.76	1.88	20.04	0.88	1939.69
70 FINANCIALS(109)	4718.06	-1.7	4799.21	4928.55	3629.49	3.13	2.53	2.43	16.43	0.06	2151.60
71 Banks, Retail(12)	6809.98	-2.1	6959.50	7194.58	5241.19	3.08	2.46	2.53	16.04	0.00	2350.97
73 Insurance(17)	2182.37	-1.3	2191.86	2259.85	1644.37	4.09	3.37	2.78	11.01	0.00	1756.48
74 Life Assurance(6)	6179.60	-0.5	6210.70	6392.10	4259.51	2.98	2.43	2.26	18.69	0.00	2720.26
77 Other Financial(26)	3729.06	-1.7	3792.33	3848.78	2942.33	2.78	2.22	2.24	20.02	0.08	2045.33
79 Property(46)	2178.80	-0.5	2188.96	2189.90	1849.42	2.95	2.43	1.44	29.35	0.00	1415.64
80 INVESTMENT TRUSTS(119)	3343.20	-2.3	3420.56	3449.82	3152.72	2.31	1.85	1.17	46.32	2.93	1204.65
89 FTSE All-Share(873)	2389.32	-1.3	2421.15	2457.54	2018.14	3.25	2.68	1.99	19.33	0.70	2140.01
105 FTSE All-Share ex IT(754)	2395.71	-1.3	2426.94	2463.88	-	3.27	2.71	2.01	19.00	0.67	1103.80
Information Technology	1033.72	-0.9	1043.04	1035.26	-	0.74	0.59	2.62	64.33	0.20	1033.72
FTSE Fledgling	1266.25	-0.6	1273.92	1273.85	1257.18	3.52	2.81	1.43	24.86	0.71	1368.09
FTSE Fledgling ex IT	1298.32	-0.6	1301.71	1298.13	1279.33	3.80	3.14	1.47	21.78	0.61	1427.47
FTSE AIM	981.6	-0.8	988.4	991.1	-	1.18	0.93	0.44	80.00†	0.19	903.70

■ Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	-	5026.4	5023.9	5000.4	4994.6	5004.5	4995.4	5044.2	5044.3	5112.6	4988.3
FTSE 250	-	4814.8	4808.5	4803.7	4799.8	4798.6	4793.7	4792.2	4798.7	4830.7	4790.1
FTSE 350	-	2430.5	2428.1	2418.4	2415.8	2419.6	2415.5	2434.4	2434.9	2464.8	2413.2
FTSE SmallCap	2336.30	2333.82	2331.51	2330.54	2329.36	2329.89	2327.73	2327.52	2326.60	2336.30	2327.16
FTSE All-Share	-	2376.56	2374.29	2365.38	2362.94	2365.01	2362.54	2377.60	2380.20	2408.15	2360.49

Time of FTSE 100 Day's high: 8.33 AM Day's low: 11.21 AM. FTSE 100 1997 High: 5330.8 (03/10/97) Low: 4056.6 (10/01/97)
Time of FTSE All-Share Day's high: 8.33 AM Day's low: 1.43 PM. FTSE All-Share 1997 High: 2492.41 (03/10/97) Low: 1996.76 (10/01/97)
Further information is available on http://www.ftse.com.

† Sector P/E ratios greater than 80 and net covers greater than 30 are not shown.
‡ Values are negative. Annual review changes please see FTSE Intl website ftse.com.

FTSE INTERNATIONAL

TRADING VOLUME

■ Major Stocks yesterday

	Vol. 000s	Closing price	Day's change
3i†	[illegible]	[illegible]	[illegible]
AMVESCAP†	[illegible]	[illegible]	[illegible]
ASDA Group†	[illegible]	[illegible]	[illegible]
Abbey National†	[illegible]	[illegible]	[illegible]
Airtours	[illegible]	[illegible]	[illegible]
Alliance & Leicester†	[illegible]	[illegible]	[illegible]
Allied Domecq†	[illegible]	[illegible]	[illegible]
Anglian Water	[illegible]	[illegible]	[illegible]
Argos	[illegible]	[illegible]	[illegible]
Arjo Wiggins	[illegible]	[illegible]	[illegible]
Assoc. Brit. Foods†	[illegible]	[illegible]	[illegible]
Assoc. Brit. Ports	[illegible]	[illegible]	[illegible]
BAA†	[illegible]	[illegible]	[illegible]
BAT Inds.†	[illegible]	[illegible]	[illegible]
BBA	[illegible]	[illegible]	[illegible]
BOC†	[illegible]	[illegible]	[illegible]
BG†	[illegible]	[illegible]	[illegible]
BP†	[illegible]	[illegible]	[illegible]
BPB	[illegible]	[illegible]	[illegible]
BSkyB†	[illegible]	[illegible]	[illegible]
BT†	[illegible]	[illegible]	[illegible]
BTR†	[illegible]	[illegible]	[illegible]
Bank of Scotland†	[illegible]	[illegible]	[illegible]
Barclays†	[illegible]	[illegible]	[illegible]
Bass†	[illegible]	[illegible]	[illegible]
Billiton†	[illegible]	[illegible]	[illegible]
Blue Circle†	[illegible]	[illegible]	[illegible]
Boots†	[illegible]	[illegible]	[illegible]
Britannic	[illegible]	[illegible]	[illegible]
Brit. Aerospace†	[illegible]	[illegible]	[illegible]
British Airways†	[illegible]	[illegible]	[illegible]
British Biotech	[illegible]	[illegible]	[illegible]
British Borneo	[illegible]	[illegible]	[illegible]
British Energy†	[illegible]	[illegible]	[illegible]
British Land†	[illegible]	[illegible]	[illegible]
British Steel†	[illegible]	[illegible]	[illegible]
Burmah Castrol	[illegible]	[illegible]	[illegible]
Burton	[illegible]	[illegible]	[illegible]
Cable & Wire†	[illegible]	[illegible]	[illegible]
Cadbury Schweppes†	[illegible]	[illegible]	[illegible]
Caradon	[illegible]	[illegible]	[illegible]
Carlton Comms.†	[illegible]	[illegible]	[illegible]
Centrica†	[illegible]	[illegible]	[illegible]
Comm. Union†	[illegible]	[illegible]	[illegible]
Compass	[illegible]	[illegible]	[illegible]
Cookson	[illegible]	[illegible]	[illegible]
Courtaulds	[illegible]	[illegible]	[illegible]
Daily Mail A	[illegible]	[illegible]	[illegible]
Danka	[illegible]	[illegible]	[illegible]
Diageo†	[illegible]	[illegible]	[illegible]
Dixons†	[illegible]	[illegible]	[illegible]
EMAP	[illegible]	[illegible]	[illegible]
EMI†	[illegible]	[illegible]	[illegible]
Electrocomps	[illegible]	[illegible]	[illegible]
Energy Group†	[illegible]	[illegible]	[illegible]
Enterprise Oil†	[illegible]	[illegible]	[illegible]
Flextech	[illegible]	[illegible]	[illegible]
Foreign & Col. I.T.	[illegible]	[illegible]	[illegible]
Gallaher	[illegible]	[illegible]	[illegible]
Gen. Accident†	[illegible]	[illegible]	[illegible]
General Elect.†	[illegible]	[illegible]	[illegible]
Glaxo Wellcome†	[illegible]	[illegible]	[illegible]
Granada†	[illegible]	[illegible]	[illegible]
GUS†	[illegible]	[illegible]	[illegible]
Greenalls	[illegible]	[illegible]	[illegible]
GRE†	[illegible]	[illegible]	[illegible]
GKN†	[illegible]	[illegible]	[illegible]
HSBC (75p shs)†	[illegible]	[illegible]	[illegible]
HSBC (HK$10)†	[illegible]	[illegible]	[illegible]
Halifax†	[illegible]	[illegible]	[illegible]
Hammerson	[illegible]	[illegible]	[illegible]
Hanson	[illegible]	[illegible]	[illegible]
Hays†	[illegible]	[illegible]	[illegible]
Hillsdown	[illegible]	[illegible]	[illegible]
Hyder	[illegible]	[illegible]	[illegible]
IMI	[illegible]	[illegible]	[illegible]
ICI†	[illegible]	[illegible]	[illegible]
Imperial Tobacco	[illegible]	[illegible]	[illegible]
Inchcape	[illegible]	[illegible]	[illegible]
Johnson Matthey	[illegible]	[illegible]	[illegible]
Kingfisher†	[illegible]	[illegible]	[illegible]
Ladbroke†	[illegible]	[illegible]	[illegible]
Land Securities†	[illegible]	[illegible]	[illegible]
Laporte	[illegible]	[illegible]	[illegible]
Legal & General†	[illegible]	[illegible]	[illegible]
Liberty Intl.	[illegible]	[illegible]	[illegible]
Lloyds TSB†	[illegible]	[illegible]	[illegible]
LASMO†	[illegible]	[illegible]	[illegible]
LucasVarity†	[illegible]	[illegible]	[illegible]
MEPC	[illegible]	[illegible]	[illegible]
Marks & Spencer†	[illegible]	[illegible]	[illegible]
Misys	[illegible]	[illegible]	[illegible]
Morgan Crucible	[illegible]	[illegible]	[illegible]
Morrison (Wm.)	[illegible]	[illegible]	[illegible]
NFC	[illegible]	[illegible]	[illegible]
NatWest Bank†	[illegible]	[illegible]	[illegible]
National Grid†	[illegible]	[illegible]	[illegible]
National Power†	[illegible]	[illegible]	[illegible]
Next†	[illegible]	[illegible]	[illegible]
Northern Foods	[illegible]	[illegible]	[illegible]
Northern Rock	[illegible]	[illegible]	[illegible]
Norwich Union†	[illegible]	[illegible]	[illegible]
Nycomed Amer†	[illegible]	[illegible]	[illegible]
Nycomed Amer N/V	[illegible]	[illegible]	[illegible]
Orange†	[illegible]	[illegible]	[illegible]
Pearson†	[illegible]	[illegible]	[illegible]
P & O†	[illegible]	[illegible]	[illegible]
Pilkington	[illegible]	[illegible]	[illegible]
PowerGen†	[illegible]	[illegible]	[illegible]
Premier Farnell	[illegible]	[illegible]	[illegible]
Provident Financial	[illegible]	[illegible]	[illegible]
Prudential†	[illegible]	[illegible]	[illegible]
REXAM	[illegible]	[illegible]	[illegible]
RMC	[illegible]	[illegible]	[illegible]
Railtrack†	[illegible]	[illegible]	[illegible]
Rank Group†	[illegible]	[illegible]	[illegible]
Reckitt & Colman†	[illegible]	[illegible]	[illegible]
Redland	[illegible]	[illegible]	[illegible]
Reed Intl.†	[illegible]	[illegible]	[illegible]
Rentokil Initial†	[illegible]	[illegible]	[illegible]
Reuters†	[illegible]	[illegible]	[illegible]
Rio Tinto†	[illegible]	[illegible]	[illegible]
Rolls Royce†	[illegible]	[illegible]	[illegible]
Royal & Sun Allce†	[illegible]	[illegible]	[illegible]
Royal Bk Scotland†	[illegible]	[illegible]	[illegible]
Safeway†	[illegible]	[illegible]	[illegible]
Sainsbury†	[illegible]	[illegible]	[illegible]
Schroders†	[illegible]	[illegible]	[illegible]
Schroders N/V†	[illegible]	[illegible]	[illegible]
Scottish & New.†	[illegible]	[illegible]	[illegible]
Scot. Hydro-Elect.	[illegible]	[illegible]	[illegible]
Scottish Power†	[illegible]	[illegible]	[illegible]
Sears	[illegible]	[illegible]	[illegible]
Securicor	[illegible]	[illegible]	[illegible]
Sema	[illegible]	[illegible]	[illegible]
Severn Trent†	[illegible]	[illegible]	[illegible]
Shell Transport†	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]

Based on trading volume for a selection of Alpha securities dealt through the SEAQ system yesterday until 4.30pm. [illegible] † Indicates a FTSE 100 index constituent. [illegible]

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Jan 12 / Sch)

BELGIUM/LUXEMBOURG (Jan 12 / Frs.)

CZECH REP (Jan 12 / Koruna)

DENMARK (Jan 12 / Kr)

FINLAND (Jan 12 / Mkk)

FRANCE (Jan 12 / Frs.)

GERMANY (Jan 12 / Dm.)

GREECE (Jan 12 / Drachma)

ITALY (Jan 12 / Lira)

NETHERLANDS (Jan 12 / Fls.)

NORWAY (Jan 12 / Kroner)

POLAND (Jan 12 / Zloty)

PORTUGAL (Jan 12 / Escudo)

SPAIN (Jan 12 / Pts.)

SWEDEN (Jan 12 / Kronor)

SWITZERLAND (Jan 12 / Frs.)

TURKEY (Jan 12 / Tk Lira)

PACIFIC

JAPAN (Jan 12 / Yen)

AUSTRALIA (Jan 12 / Aus$)

HONG KONG (Jan 12 / H.K.$)

INDONESIA (Jan 12 / Rupiah)

MALAYSIA (Jan 12 / MYR)

NEW ZEALAND (Jan 12 / NZ $)

SINGAPORE (Jan 12 / S$)

SOUTH KOREA (Jan 12 / Won)

TAIWAN (Jan 12 / TW $)

THAILAND (Jan 12 / Baht)

AFRICA

SOUTH AFRICA (Jan 12 / Rand)

NORTH AMERICA

CANADA

TORONTO (Jan 12 / Can $)

12:15 pm

MONTREAL (Jan 12 / Can $)

12:15 pm

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS	FRIDAY JANUARY 9 1998								THURSDAY JANUARY 8 1998					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	52 week High	52 week Low	Year ago (approx)
Australia (74)	196.60	-0.8	180.48	163.45	186.05	202.61	-2.2	3.75	198.23	181.83	166.19	187.22	207.09	243.87	190.41	217.35
Austria (23)	189.41	-1.3	173.88	157.47	179.25	179.10	-1.1	1.85	191.84	175.97	160.84	181.18	181.04	213.59	175.14	184.71
Belgium (26)	253.90	-1.4	233.08	211.09	240.27	235.14	-1.1	2.93	257.44	236.14	215.83	243.13	237.88	263.33	227.32	227.32
Brazil (30)	210.06	-5.9	192.84	174.64	198.79	431.99	-6.0	1.91	223.25	204.78	187.16	210.84	459.34	322.44	184.94	200.13
Canada (122)	201.17	-2.7	184.68	167.25	190.38	207.36	-3.3	1.91	206.79	189.69	173.37	195.30	214.48	233.66	178.27	194.02
Denmark (32)	451.23	-1.3	414.24	375.15	427.02	425.39	-1.1	1.20	457.25	419.42	383.34	431.84	430.09	464.94	349.27	353.20
Finland (28)	279.83	-2.8	256.89	232.64	264.81	323.75	-2.6	1.94	287.88	264.06	241.35	271.88	332.38	349.43	243.25	252.33
France (83)	229.97	-1.3	211.12	191.20	217.63	219.80	-1.1	2.42	233.01	213.73	195.35	220.05	222.27	246.23	209.81	212.91
Germany (58)	226.11	-2.7	207.57	187.98	213.98	213.98	-2.5	1.37	232.38	213.15	194.82	219.46	219.46	243.87	184.23	186.52
Hong Kong, China (86)	291.89	-4.2	267.96	242.67	276.23	290.41	-4.2	5.50	304.84	279.62	255.57	287.89	303.11	580.03	291.89	498.21
Indonesia (27)	31.77	7.9	29.17	26.42	30.07	174.45	-4.4	3.86	29.44	27.01	24.68	27.81	182.43	254.90	29.44	239.03
Ireland (16)	404.73	-1.4	371.55	336.49	383.02	416.31	-1.6	2.37	410.52	376.56	344.17	387.71	423.31	414.74	316.20	330.42
Italy (53)	122.94	-0.1	112.86	102.21	116.34	164.24	0.1	1.49	123.01	112.84	103.13	116.18	164.07	124.08	83.01	86.84
Japan (481)	91.95	-0.5	84.41	76.44	87.01	76.44	-1.3	1.04	92.40	84.76	77.47	87.27	77.47	141.12	91.17	121.83
Malaysia (107)	118.75	-1.0	109.03	98.74	112.39	210.63	-2.7	3.45	119.97	110.05	100.56	113.31	216.47	680.85	118.76	617.61
Mexico (26)	1570.08	-5.6	1441.35	1305.34	1485.84	13875.60	-5.6	1.75	1663.74	1526.10	1394.83	1571.28	14693.37	1901.98	1305.70	1314.49
Netherlands (19)	400.66	-1.5	367.81	333.10	379.16	375.15	-1.3	2.24	406.88	373.22	341.12	384.27	380.16	440.67	326.45	329.28
New Zealand (14)	73.69	-1.4	67.65	61.27	69.74	68.47	-2.0	4.51	74.73	68.55	62.65	70.58	69.88	96.47	73.21	94.26
Norway (38)	298.66	-3.0	274.18	248.30	282.64	302.92	-3.0	2.00	307.86	282.40	258.10	290.75	312.29	374.64	292.29	305.89
Philippines (22)	57.54	-8.5	52.82	47.84	54.46	129.18	-9.0	1.43	62.91	57.70	52.74	59.41	140.64	214.07	57.54	206.03
Singapore (42)	159.25	-7.1	146.19	132.40	150.71	130.15	-7.5	2.46	171.48	157.29	143.76	161.95	140.78	448.01	159.25	428.32
South Africa (43)	249.60	-1.2	229.13	207.51	236.20	269.44	-1.3	3.14	252.69	231.79	211.85	238.66	273.03	370.12	249.60	318.70
Spain (35)	276.24	-0.6	253.59	229.66	261.42	322.94	-0.3	2.16	277.76	254.79	232.87	262.33	323.90	281.72	208.12	220.75
Sweden (48)	462.43	-1.6	424.51	384.45	437.62	547.34	-2.0	1.90	470.13	431.24	394.15	444.01	558.57	538.94	405.00	428.41
Switzerland (31)	335.62	-1.5	308.11	279.03	317.62	307.26	-1.1	1.09	340.89	312.69	285.79	321.94	310.77	343.44	231.69	236.56
Thailand (56)	14.62	-8.4	13.43	12.16	13.84	30.78	-7.1	9.37	15.97	14.65	13.39	15.08	33.15	103.98	14.62	103.98
United Kingdom (212)	326.16	-1.8	299.44	271.19	308.58	299.44	-1.7	3.29	332.18	304.70	278.49	313.72	304.70	337.88	271.72	278.65
USA (640)	378.74	-2.9	347.69	314.88	358.42	378.74	-2.8	1.65	390.22	357.94	327.15	368.54	390.22	401.22	299.79	307.35
Americas (818)	343.40	-3.0	315.24	285.49	324.97	289.78	-3.0	1.66	353.97	324.69	296.76	334.30	298.79	365.75	274.59	281.51
Europe (701)	285.15	-1.7	261.77	237.07	269.85	274.20	-1.5	2.34	289.86	265.97	243.10	273.85	278.42	296.25	236.09	237.71
Nordic (147)	406.87	-1.9	373.51	338.27	385.04	420.05	-2.0	1.79	414.68	380.37	347.65	391.63	428.76	464.93	355.77	369.14
Pacific Basin (872)	99.57	-1.0	91.40	82.78	94.22	84.11	-1.8	1.75	100.54	92.22	84.29	94.95	85.64	158.99	99.57	142.34
Euro-Pacific (1573)	176.85	-1.4	162.46	147.12	167.46	155.66	-1.6	2.15	179.53	164.68	150.51	169.55	158.19	209.12	173.55	182.03
North America (762)	367.38	-2.9	337.27	305.45	347.68	367.17	-3.0	1.66	378.50	347.18	317.32	357.46	378.37	389.57	292.34	300.58
Europe Ex. UK (489)	256.58	-1.8	235.55	213.32	242.82	253.57	-1.4	1.80	260.70	239.13	218.56	246.21	257.15	267.07	210.86	210.92
Pacific Ex. Japan (391)	172.08	-2.7	157.97	143.07	162.85	178.47	-3.5	4.40	176.86	162.23	148.28	167.03	184.90	320.65	172.08	314.64
World Ex. US (1794)	180.16	-1.6	165.39	149.78	170.49	161.50	-1.8	2.14	183.07	167.92	153.48	172.89	164.41	212.89	176.94	184.84
World Ex. UK (2222)	236.38	-2.3	217.00	196.52	223.70	218.65	-2.5	1.72	242.05	222.03	202.93	228.60	222.10	262.69	211.16	218.43
World Ex. Japan (1953)	320.02	-2.5	293.78	266.06	302.85	316.44	-2.5	2.00	328.28	301.13	275.22	310.04	324.59	344.35	271.90	276.01
The World Index (2434)	243.98	-2.3	223.97	202.84	230.89	224.07	-2.4	1.89	249.66	229.02	209.32	235.80	229.52	268.47	216.61	223.55

 CONSTITUENT CHANGE WITH EFFECT 14/1/98: Deletion: Dominion Textiles (Canada). Latest prices were unavailable for this edition.

Emerging markets: IFC Investable indices

Dollar terms

Jan 9

Market: Latin America, Argentina, Brazil, Chile, Colombia, Mexico, Peru, Venezuela, East Asia, China, Korea, Philippines, Taiwan, China, South Asia, India, Indonesia, Malaysia, Pakistan, Sri Lanka, Thailand, Europe/Mideast/Africa, Czech Rep, Egypt, Greece, Hungary, Israel, Jordan, Morocco, Poland, Portugal, Russia, S Africa, Slovakia, Turkey, Zimbabwe, Regions: Composite, Latin America, Asia, EMEA

12 pm January 12

NEW YORK STOCK EXCHANGE PRICES

- X - Y - Z -

Stock	Div	Yld %	P/E	Sls 100s
Xerox	1.28	1.9	16	9507
Xtra Corp	0.80	1.4	21	60
Yankee Egy	1.34	5.4	15	14
York Int	0.48	1.3	13	149
Zapata	0.28	4.5	54	30
ZenithE				868
Zenith Nat	1.00	3.9	15	11
Zenix Inc	0.76	9.3		27
Zero	0.12	0.4	18	159
ZweigFd x	1.24	9.5		579
Zweig Tot x	0.84	8.8		241

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1997. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. sls-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
Dealings suspended. Due to technical problems, closing N American prices were unavailable.

♣ **FT Free Annual Reports Service**
You can obtain the current annual reports and if available quarterly reports of any companies on the US exchanges with a ♣ symbol. To order reports ring (International Access) 1-804-320-8097 or give the names of the companies whose reports you want and fax your request to (International Access) 1-804-320-8135. Reports will be sent the next working day, subject to availability. You can also order online at http://www.icbinc.com/cgi-bin/ft.

NASDAQ

GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Jan 9	Jan 8	Jan 7	1997/98 High	1997/98 Low	Since compilation High	Since compilation Low
Industrials	7580.42	7802.62	7902.27	8259.31 (6/8/97)	6391.69 (11/4/97)	8259.31 (6/8/97)	41.22 (8/7/32)
Home Bonds	105.27	105.27	105.33	105.36 (5/1/98)	101.09 (14/4/97)	105.36 (5/1/98)	54.99 (1/10/81)
Transport	3194.39†	3298.84	3331.47	3359.27 (15/10/97)	2222.07 (2/1/97)	3359.27 (15/10/97)	13.23 (8/7/32)
Utilities	282.65	285.10	282.92	272.01 (30/12/97)	209.47 (25/4/97)	272.81 (30/12/97)	10.53 (8/7/32)

DJ Ind. Day's High 7675.08 (7835.40) Low 7513.41 (7733.12) (Theoretical)♠
Day's High 7600.13 (7802.02) Low 7527.36 (7798.15) (Actual)♠

Standard and Poor's	Jan 9	Jan 8	Jan 7	1997/98 High	1997/98 Low	Since compilation High	Since compilation Low
Composite♥	927.69	956.04	964.00	983.79 (5/12/97)	737.01 (2/1/97)	983.79 (5/12/97)	4.40 (1/6/32)
Industrials♥	1077.48	1110.82	1118.58	1146.82 (7/10/97)	865.42 (11/4/97)	1148.82 (12/12/97)	3.52 (30/6/32)
Financial♥	110.85	114.28	116.18	120.83 (8/12/97)	80.75 (2/1/97)	120.83 (8/12/97)	7.13 (4/9/74)
Others: NYSE Comp.	487.47	501.64	506.18	514.31 (5/12/97)	389.47 (11/4/97)	514.31 (5/12/97)	4.64 (25/4/42)
Amex Comp	659.24	667.56	674.29	721.90 (7/10/97)	541.20 (28/4/97)	721.90 (7/10/97)	524.20 (18/7/96)
NASDAQ Comp	1503.22	1556.54	1561.70	1745.85 (9/10/97)	1201.00 (2/4/97)	1745.85 (9/10/97)	54.87 (3/10/74)
Russell 2000	412.95	425.71	429.78	465.21 (13/10/97)	335.85 (25/4/97)	465.21 (13/10/97)	123.36 (7/12/93)

RATIOS

	Jan 9	Jan 2	Dec 26	Year ago
Dow Jones Ind. Div. Yield	1.81	1.72	1.79	1.98
	Jan 7	Dec 31	Dec 24	Year ago
S & P Ind. Div. yield	1.49	1.49	1.55	1.85
S & P Ind. P/E ratio	25.98	26.04	25.05	23.00

US DATA

MARKET ACTIVITY

● Volume (million)

	Jan 9	Jan 8	Jan 7
NYSE	751.701	655.871	660.928
Amex	28.827	21.863	28.993
NASDAQ	830.007	651.147	696.826

NYSE	Jan 9	Jan 8	Jan 7
Issues Traded	3,464	3,452	3,458
Rises	560	1,087	1,209
Falls	2,513	1,891	1,794
Unchanged	391	474	455
New Highs	95	117	94
New Lows	109	93	62

NYSE TRADING ACTIVITY — Volume : 704,315,000

ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
AT & T	10,982,500	61	-1¾
Compaq	8,763,800	55⅝	-2⅝
IBM	8,233,800	100	-4⅛
Chrysler	8,165,300	32¼	-⅛
Ph Morris	8,142,200	45⅛	-1⅛
Travelers	5,991,600	47⅛	-2½
Bay Ntwork	5,850,900	25⅛	-2⅜
Medpartners	5,729,900	8⅜	-1⅛
Tel Brasil	4,892,100	100⅛	-4⅛
Micron Tec	4,885,100	27⅛	-⅞

BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
Paragon Tde	6⅛	+⅞	+15.7
PT Tlkm	6⅛	+⅞	+15.4
Dept 56	28⅜	+1½	+5.6
Fd Amer Est	127	+6⅞	+5.4
Downs			
Inpt/Otpt	19⅛	-6¼	-24.6
Cooper Cam	47½	-5⅛	-10.1
EW Inc	40½	-4½	-10
ICH Fnm	44⅛	-4⅛	-8.4

NASDAQ TRADING ACTIVITY — Volume :696,945,000

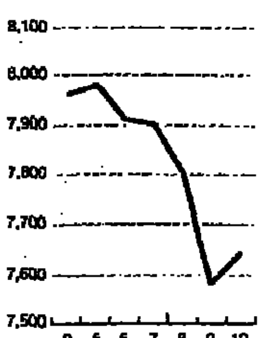
ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
Adaptec	28,792,200	21⅛	-14⅛
Oracle	24,823,300	18⅝	-1⅛
Intel	21,982,400	71⅝	-2⅛
Cisco	13,995,400	54⅛	-1⅛
Dell Cmp	13,595,600	83⅞	-3
Appld Matl	12,722,900	28	-1⅛
Three Com	12,477,200	30⅛	-2⅛
Microsft	10,928,000	127	-3⅛
Tele Comm	10,857,800	28⅛	-⅛
Worldcom	10,760,400	28⅞	-1⅞

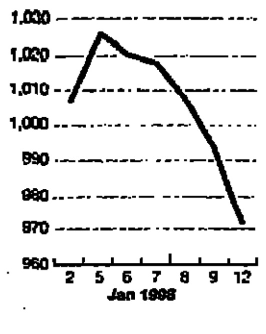
BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
Mystic Fnl	14⅛	+4⅛	+44.4
Heritage Fnl	13⅛	+3⅛	+32.5
Sor Vision	10⅛	+1⅛	+20.6
Lightpath	14	+2⅛	+19.1
Downs			
Gamatech	5	-4⅛	-48.4
Neurophase	6⅛	-5⅛	-47.3
Adaptec	21⅛	-14⅛	-40
Molecular	10	-6	-37.5

Dow Jones



FTSE Eurotop 300



JAPAN

	Jan 12	Jan 9	Jan 8	1997/98 High	1997/98 Low	Since compilation High	Since compilation Low
Nikkei 225	14664.44	14395.10	15019.18	20681.1	14664.4	38915.9	85.25

TOKYO TRADING ACTIVITY — Volume : 316,000,000

ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
Yamaichi Scs	16,909,000	1	
Nip Steel	10,879,000	149	-6
Sumitomo Mtl	5,675,000	150	+1
Sakura Bk	5,479,000	331	-21
NKK Corp	4,959,000	97	-1
Sumitomo Bk	4,559,000	1240	-140
Itochu	4,440,000	192	-10
Mitsubishi Hvy	4,371,000	463	-21
Bk Tk-Mitsbi	4,349,000	1680	-100
Daiichi Kgy B	3,838,000	650	-48

BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Kopn Pipe	200	+25	+14.3
Fuji Elec	250	+29	+13.1
Nichimo	130	+15	+13.0
Sanyo Inds	315	+35	+12.5
Downs			
Zexel	252	-43	-14.6
OKI Elec	212	-34	-13.8
Yamaha Mtr	666	-100	-13.1
Osaki Elec	261	-38	-12.7

FRANCE

	Jan 12	Jan 9	Jan 8	1997/98 High	1997/98 Low	Since compilation High	Since compilation Low
CAC 40	2802.54	2919.81	2954.94	3094.01	2256.87	3094.01	984.61

PARIS TRADING ACTIVITY — Volume : 558,454,810

ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
Fr Telecom	3,034,147	234.6	-5.8
Nat.de Nvgtn	2,855,134	140	+7
Usinor	1,458,739	75.4	-3.05
Ass.Gn.France	1,321,480	317.7	-0.3
Total B	1,222,772	577	-16
Rhne-Pinc A	1,183,583	273	-5.7
SocGen	1,174,180	700	-24
Elf Aquitane	1,050,839	618	-17
BNP	989,522	279	-11
C.Fn Parbs A	892,577	491.9	-11.1

BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Immob Hotel	27.8	+6.7	+31.8
Fipp	258	+33.7	+15.2
Materiez	745	+70	+10.4
Eld Deploye	375	+34	+10
Downs			
Coflexip	518	-56	-9.8
Prodef	525	-55	-9.5
Bouygues Off	218	-20.4	-8.6
Dassault Sys	157	-12.7	-7.5

GERMANY

	Jan 12	Jan 9	Jan 8	1997/98 High	1997/98 Low	Since compilation High	Since compilation Low
DAX	4087.28	4236.94	4347.23	4438.93	2848.77	4438.93	531.12

FRANKFURT TRADING ACTIVITY — Volume : 10,969,836

ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
Deut.Bank	1,492,579	108.9	-6.15
Commerzbank	1,397,969	65.3	-4.5
Deut Tlcm	1,313,501	31.85	-0.85
Bayer	973,626	64.60	-2.4
Siemens	893,603	104.85	-5.2
Lufthansa	834,232	33.30	-1.6
Drsdnr Bank	693,951	76.90	-5.15
BASF	653,562	61.25	-2.35
Veba	633,887	117.65	-2
Dmlr-Benz	543,101	130.70	-4.8

BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Preussag	540.5	+21.5	+4.1
Jungheinr NV Pf	282	+10	+3.7
CEKE	100	+3	+3.1
Downs			
VBH Holdings	25.5	-2.5	-8.9
Heidlbg NV Pf	96	-7	-6.8
Tarkett	41	-2.9	-6.6
Commerzbank	65.3	-4.5	-6.4
Dresdner Bk	76.9	-5.15	-6.3

UK

	Jan 12	Jan 9	Jan 8	1997/98 High	1997/98 Low	Since compilation High	Since compilation Low
FTSE 100	5068.8	5139.3	5237.1	5330.8	4056.6	5330.8	986.9

LONDON TRADING ACTIVITY — Volume : 751,500,000

ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
Emerald Engy	21,698,870	7¼	+1
GEC	17,964,140	399	+4½
Shell T&T	17,504,790	404	-9½
BTR	15,239,390	171½	-8½
Centrica	12,868,440	95	-½
Vodafone	11,206,700	431	+2
Asda	10,520,350	183½	+1½
Burton Grp	9,785,487	138½	-3½
Stnd.Chartd	9,212,992	549	+2
Natl. Grid	8,715,168	271	+1

BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Elliott (B)	93½	+20	+27.2
Reece	1½	+¼	+16.7
Emerald Engy	7¼	+1	+16
Langdons Fd	2	+¼	+14.3
Downs			
Bolt (A.H.)	3	-1	-25
Servisair	200	-65	-24.5
Fennell (T.)	25½	-7	-21.5
Pace Micro	37½	-8	-17.6

INDEX FUTURES

	Open	Latest	Change	High	Low	Est. vol.	Open int.
S&P 500							
Mar	930.00	917.60	-31.50	934.10	915.00	149,589	375,249
Jun	–	938.60	–	–	935.50	1,317	10,088
Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	14660.0	14730.0	-350.0	14930.0	14620.0	17,880	188,103
Jun	14880.0	14810.0	-190.0	14880.0	14810.0	2	31,449

Open interest figures for previous day.

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
CAC-40 (200 x index)							
Jan	2830.0	2868.0	-55.0	2888.0	2816.0	22,634	41,102
Feb	2842.0	2876.0	-55.0	2888.0	2838.0	5	2,490
DAX							
Mar	4098.0	4158.0	-111.5	4162.0	4076.5	38,631	65,466
Jun	4158.0	4185.0	-113.0	4185.0	4122.0	355	8,460
OMX							
Jan	2300.00	2279.50	-110.25	2310.00	2258.00	10,932	23,622
Feb	2305.00	2287.00	-118.00	2316.00	2269.00	1,785	1,281
SOFFEX							
Jan	6100.00	6063.00	-165.1	6105.0	6015.0	9,264	18,093
Mar	6102.00	6081.00	-398.2	6102.0	6060.1	23	421

WORLD MARKETS AT A GLANCE

Country	Index	Jan 12	Jan 9	Jan 8	1997/98 High	1997/98 Low	Yield	P/E
Argentina	General	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	17.6
Australia	All Ordinaries	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	19.2
	All Mining	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		
Austria	Credit Aktien	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	14.6
	Traded Index	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		
Belgium	BEL20	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	17.1
Brazil	Bovespa	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	na
Canada	TSE 300	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	18.4
	Metals & Minls	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		
	Composite	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		
	Portfolio	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		
Chile	IGPA Gen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	14.8
China	Shanghai B	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	50.8
	Shenzhen B	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		
Colombia	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	na
Czech Republic	PX 50	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	na
Denmark	Copenhagen SE	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	22.4
Egypt	Cairo SE	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	na
Finland	HEX General	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	14.3
France	SBF 250	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	17.8
	CAC 40	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		
Germany	FAZ Aktien	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	21.1
	Commerzbank	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		
	DAX	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		
Greece	Athens SE	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	15.7
	FTSE/ASE 20	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		
Hong Kong	Hang Seng	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	9.1
	HSCC Red Chip	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		
Hungary	Bux	7260.79	8001.87	8218.14	8483.80 6/8/97	4291.30 6/1/97	na	na

Hungary: Asian crisis affected sentiment, triggering fears about declining foreign interest in Hungarian equities.

Country	Index	Jan 12	Jan 9	Jan 8	1997/98 High	1997/98 Low	Yield	P/E
India	BSE Sens.	3335.04	3530.20	3598.16	4548.02 5/8/97	3225.24 2/1/97		
	Crisil 500	648.50	648.50	664.90	843.28 5/8/97	616.29 12/12/97	na	na

India: Shares closed sharply lower on the back of worsening Asian economic woes. Foreign funds seen selling Indian equities.

Country	Index	Jan 12	Jan 9	Jan 8	1997/98 High	1997/98 Low	Yield	P/E
Indonesia	Jakarta Comp.	350.23	342.97	347.11	740.83 8/7/97	339.63 15/12/97	3.41	9.8

Indonesia: Bucked the regional downtrend as most state-controlled companies rose because of possible government support.

Country	Index	Jan 12	Jan 9	Jan 8	1997/98 High	1997/98 Low	Yield	P/E
Ireland	ISEQ Overall	4145.44	4215.89†	4276.33	4303.84 7/1/98	2725.07 2/1/97	2.06	23.7

Ireland: Banks hit by profit-taking after recent outperformance. Smurfit lost 3.5 per cent on fears about Asian packaging demand.

Country	Index	Jan 12	Jan 9	Jan 8	1997/98 High	1997/98 Low	Yield	P/E
Israel	Mishtanim 100	(u)	(c)	283.48	311.76 6/8/97	214.16 2/1/97	na	na

Israel: Early losses associated with Asia continued in the afternoon on fears about the potential opening fall on Wall Street.

Country	Index	Jan 12	Jan 9	Jan 8	1997/98 High	1997/98 Low	Yield	P/E
Italy	BCI Comit 30	261.77	262.33	261.50	264.66 7/1/98	156.74 2/1/97	1.72	22.7
	Banca Com Ital	1088.68	1101.41	1112.86	1125.98 7/1/98	680.42 2/1/97		
	Mibtel General	17633.0	17680.0	17631.0	17839.00 7/1/98	10488.00 2/1/97		

Italy: Shares trimmed losses in the afternoon session, buoyed by a recovery on Wall Street.

Country	Index	Jan 12	Jan 9	Jan 8	1997/98 High	1997/98 Low	Yield	P/E
Japan	Nikkei 225	14664.44	14995.10	15019.18	20681.10 16/6/97	14664.40 12/1/98	0.98	40
	Nikkei 300	224.85	230.71	233.74	303.71 28/7/97	224.86 12/1/98		
	Topix	1120.61	1149.19	1163.20	1560.28 26/6/97	1120.61 12/1/98		
	2nd Section	1185.02	1193.31	1198.24	1848.25 30/6/97	1180.55 24/12/97		

Japan: Ended at lowest level in over two years as the prime minister's speech failed to soften impact of Friday's US falls.

Country	Index	Jan 12	Jan 9	Jan 8	1997/98 High	1997/98 Low	Yield	P/E
Jordan	Amman SE	(u)	(c)	(c)	168.57 5/1/98	– –	na	na

Jordan: Market opened but did not trade as brokers stayed away following heavy snowstorms over the weekend

Country	Index	Jan 12	Jan 9	Jan 8	1997/98 High	1997/98 Low	Yield	P/E
Malaysia	KLSE Comp.	477.57	491.60	507.16	1271.57 25/2/97	477.57 12/1/98	3.52	8.5

Malaysia: Renong and UEM were suspended again when each fell by over 30 per cent shortly after requotation.

Country	Index	Jan 12	Jan 9	Jan 8	1997/98 High	1997/98 Low	Yield	P/E
Mexico	IPC	4574.71	4547.74	4837.18	5369.48 21/10/97	3368.46 2/1/97	1.24	14.3

Mexico: ₰Market rebounded from early losses, tracking Wall Street.

Country	Index	Jan 12	Jan 9	Jan 8	1997/98 High	1997/98 Low	Yield	P/E
Morocco	CASA	670.28	(c)	670.23	688.75 23/4/97	461.90 3/1/97	na	na

Morocco: Shares closed lower in very thin trade.

Country	Index	Jan 12	Jan 9	Jan 8	1997/98 High	1997/98 Low	Yield	P/E
Netherlands	CBS TtlRtnGen	1045.2	1070.2	1084.2	1104.60 7/8/97	730.80 2/1/97	2.12	21.5
	CBS All Shr	598.2	613.5	621.5	634.40 7/8/97	429.00 2/1/97		

Netherlands: Transport group Hagemeyer lost Fl 2 to Fl 79 after First Pacific of Hong Kong said it would sell its 40 per cent stake.

Country	Index	Jan 12	Jan 9	Jan 8	1997/98 High	1997/98 Low	Yield	P/E
New Zealand	Cap. 40	2212.83	2269.28	2307.91	2635.48 22/10/97	2162.01 28/10/97	4	18.2

New Zealand: Most top tier stocks were hit by Wall Street falls. Investors disheartened further as Hong Kong opened 8 per cent down.

Country	Index	Jan 12	Jan 9	Jan 8	1997/98 High	1997/98 Low	Yield	P/E
Nigeria	SE All-Share	2236.40	6433.16	6427.84	6433.16 9/1/98	– –	na	na

Nigeria: Index eased as a number of blue chips ended down. West African Portland Cement was among the biggest of the fallers.

Country	Index	Jan 12	Jan 9	Jan 8	1997/98 High	1997/98 Low	Yield	P/E
Norway	Oslo SE Ind	1907.13	1996.82	2054.75	2287.56 22/10/97	1639.03 2/1/97	1.82	13.5

Norway: Oil and transport stocks hard hit as Oslo was swept up in the latest Asian turmoil.

Country	Index	Jan 12	Jan 9	Jan 8	1997/98 High	1997/98 Low	Yield	P/E
Pakistan	Karachi SE	1502.20	(u)	1660.01	2087.98 22/10/97	1341.31 7/1/97	na	na

Pakistan: Plunged 4.5 per cent on fears that falls in other Asian markets would keep foreign fund managers out of the whole region.

Country	Index	Jan 12	Jan 9	Jan 8	1997/98 High	1997/98 Low	Yield	P/E
Peru	Lima Gen	1650.39	1671.81	1700.22	2269.40 10/7/97	1429.79 2/1/97	na	na
Philippines	Manila Comp	1532.97	1518.00	1656.85	3447.60 3/2/97	1518.00 9/1/98	1.55	10

Philippines: Bargain-hunters reversed early falls, lifting the market 1 per cent by the close. But losers led gainers 52 to 49.

Country	Index	Jan 12	Jan 9	Jan 8	1997/98 High	1997/98 Low	Yield	P/E
Poland	WIG	13228.8	14066.6	14295.3	18339.40 18/3/97	13228.80 12/1/98	1.75	10.7

Poland: Shares lost 6 per cent – a year low. Bank PSR was the sole riser on Bayerische Landesbank's plans to buy 51 per cent.

Country	Index	Jan 12	Jan 9	Jan 8	1997/98 High	1997/98 Low	Yield	P/E
Portugal	BVL 30	3911.62	3958.76	3978.58	3992.42 6/1/98	2166.57 2/1/97	1.47	28.7
	PSI 20	9115.92	9228.17	9274.33	9294.05 6/1/98	8182.34 2/1/97		

Portugal: Shares trimmed early losses in the afternoon session, tracking Wall Street.

Country	Index	Jan 12	Jan 9	Jan 8	1997/98 High	1997/98 Low	Yield	P/E
Russia	RTS	318.52	372.46	382.06	571.66 6/10/97	213.38 6/1/97	na	na

Russia: Shares fell 15 per cent on Asian worries. However, brokers reported that trading was minimal.

Country	Index	Jan 12	Jan 9	Jan 8	1997/98 High	1997/98 Low	Yield	P/E
Singapore	SES All-S'pore	324.92	351.01	370.16	573.63 17/2/97	324.92 13/1/98	2.68	12.7
	Straits Times	1073.47	1176.35	1270.70	2271.88 20/1/97	1073.47 12/1/98		

Singapore: Banking and property stocks were hit hardest on concerns over rising interest rates. Market tumbled 9 per cent.

Country	Index	Jan 12	Jan 9	Jan 8	1997/98 High	1997/98 Low	Yield	P/E
Slovakia	SAX	165.60	177.42	169.85	208.64 21/3/97	164.81 22/7/97	na	na
South Africa	JSE Gold	697.4♥	726.3	744.0	1588.10 27/2/97	670.10 5/12/97	3.23	12.2
	JSE Indl.	6715.1♥	7183.8	7263.6	8914.20 7/8/97	6715.10 12/1/98		

South Africa: Asia's crisis helped to send an already depressed Johannesburg market down by more than 6 per cent.

Country	Index	Jan 12	Jan 9	Jan 8	1997/98 High	1997/98 Low	Yield	P/E
South Korea	KoreaCmpEx**	456.20	414.00	423.96	792.29 17/6/97	350.68 12/12/97	2.84	11.5

South Korea: Rose 3.5 per cent in record volume after news that foreign financial institutions would roll over short-term debt.

Country	Index	Jan 12	Jan 9	Jan 8	1997/98 High	1997/98 Low	Yield	P/E
Spain	Madrid SE	645.14	650.83	651.72	660.07 5/1/98	434.54 2/1/97	2.25	22.1

Spain: Trimmed early losses in the afternoon session, tracking Wall Street.

Country	Index	Jan 12	Jan 9	Jan 8	1997/98 High	1997/98 Low	Yield	P/E
Sri Lanka	CSE All Share	(c)	705.00	701.30	889.70 31/7/97	608.20 2/1/97	na	na

Sri Lanka: Market closed for religious holiday.

Country	Index	Jan 12	Jan 9	Jan 8	1997/98 High	1997/98 Low	Yield	P/E
Sweden	AffarsvarldsGen	2853.1	2974.8	3029.6	3315.80 7/8/97	2378.50 2/1/97	1.76	21.9

Sweden: Technology giant Ericsson traded weakly ahead of Motorola's fourth-quarter earnings report.

Country	Index	Jan 12	Jan 9	Jan 8	1997/98 High	1997/98 Low	Yield	P/E
Switzerland	SMI Index	6062.1	6251.8	6330.2	6387.80 5/1/98	3822.90 7/1/97	1.1	24.2
	SPI General	3781.36	3893.94	3934.81	3972.97 7/1/98	2506.22 6/1/97		

Switzerland: Novartis fell sharply after denying persistent rumours that it was about to institute a share buyback programme.

Country	Index	Jan 12	Jan 9	Jan 8	1997/98 High	1997/98 Low	Yield	P/E
Taiwan	WeightedPr.**	7375.14	7737.20	7778.16	10116.80 26/8/97	6844.75 6/1/97	1.11	22

Taiwan: The electronics sector led a widespread sell-off as it fell 5.9 per cent, following Friday's heavy losses on the Nasdaq.

Country	Index	Jan 12	Jan 9	Jan 8	1997/98 High	1997/98 Low	Yield	P/E
Thailand	Bangkok SET	339.17	349.67	360.17	868.97 22/1/97	284.20 24/12/97	8.27	8

Thailand: Dropped to lowest level in almost 10 years as locals sold off large capitalised stocks and baht hit a record low.

Country	Index	Jan 12	Jan 9	Jan 8	1997/98 High	1997/98 Low	Yield	P/E
Turkey	IMKB Nat 100	3199.67	3587.11	3590.11	3711.40 5/1/98	995.00 2/1/97	1.58	20.9

Turkey: Istanbul fell almost 11 per cent after local brokers noted a new year buying spree by foreigners had failed to happen.

Country	Index	Jan 12	Jan 9	Jan 8	1997/98 High	1997/98 Low	Yield	P/E
Venezuela	IBC	7081.05	7854.57†	7925.26	10817.10 17/10/97	6081.99 12/3/97	na	na
Zimbabwe	ZSE Industrial	8173.45	7983.27	7909.86	12882.00 5/8/97	6801.51 18/12/97	na	na

Zimbabwe: Extended its new year rally to six consecutive sessions, but brokers sceptical about the sustainability of the surge.

Country	Index	Jan 12	Jan 9	Jan 8	1997/98 High	1997/98 Low	Yield	P/E
WORLD	FT/S&P World($)	(u)	243.98	249.68	269.47 7/10/97	216.81 14/4/97	na	na
	MS Capital Int$	888.5*	902.8	923.2	981.89 31/7/97	784.50 14/4/97	na	na
CROSS-BORDER	Eurotrack 100	2662.62	2759.51	2785.66	2794.80 7/8/97	1893.80 2/1/97	na	na
	FTSE E100	2236.40	2287.28	2325.09	2377.08 5/1/98	1582.98 2/1/97	na	na
	HSBC JC Drgn	(u)	204.71	211.42	434.83 6/8/97	204.71 13/1/98	na	na
	ING Brngs Emrg	125.19	132.53	135.22	198.81 9/7/97	132.53 9/1/98	na	na

[illegible] DAX after-hours index: Jan 12 - 4129.79 -107.98. † Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♠ The DJ Ind. Index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by [illegible] during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation. ₰ Yields and P/E ratios are based on Datastream Total Market Indices. ₰ Midsession.

NASDAQ NATIONAL MARKET

12 pm January 12

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
[illegible]							

NASDAQ NATIONAL MARKET

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
[illegible]							

AMEX PRICES

12 pm January 12

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
[illegible]							

EASDAQ

EASDAQ is a fully regulated independent pan European Stock Market focused on high growth companies with international aspirations. The shares of companies on the EASDAQ Stock Market can be bought and sold through EASDAQ Members.

Company	Mid price	Change on day	Volume	High	Low
ActivCard	US$2.25	-0.125	1900	8.25	2.375
Algol	ITL13350		0	13350	12450
Artwork Systems	US$7.0	-0.125	2950	11.125	5.875
Chemunex	FFr10.5		20000	18	10
City Bird Holding	US$7.75	-0.188	3030	8.25	6.8125
Debonair Holdings	GBP3.00	-0.3	7000	7.15	2.85
Dr Solomon's *	US$32.13	-0.250	1500	38.125	17
EDAP TMS *	US$5.94		0	9.125	6.5
ESAT Telecom *	US$14.38	+0.125	0	15.25	13.25
Espace Prod. Int.	FFr89.75	-0.7	5700	117	88.83
Esprit Telecom *	US$10.875		2100	12.25	4.875
Gruppo Formula	ITL17200	-100.0	13000	22800	16400
Innogenetics	US$28.13	-1.625	206714	27.25	9.875
Integr. Surg. Syst.	DEM7.70	+0.1	0	12.1	7.4
Lernout & Hauspie	US$45.50	-1.875	22492	58.625	25
Meteus	US$7.75		2500	9.125	7.1875
Mercer Int'l	US$8.38	-0.250	0	12.875	8
NTL	US$27.38	-0.750	1000	29	20.5
Option Int'l	US$11.75	-0.250	10157	12.125	10.375
Po-Tech	US$2.75	-0.125	1000	6.125	2.125
Schoeller-Bleckmann	Sch1105	-138	13500	1682	900
Topcall Int'l	Sch6043	-45	2065	6108	3065
Turbodyne Technol.	US$3.25	-0.08	0	6.25	2.55

Prices for 12/1/98. Please note that mid prices are now used to calculate highs and lows. Information about EASDAQ can be found on the Web site at: HTTP://WWW.EASDAQ.be EASDAQ offices are located in Brussels (Tel. 32-2 / 227 65 20) and in London (Tel. 44-171 / 489 9990)

* FINANCIAL TIMES Tuesday January 13 1998

Selling fierce but more selective

WORLD OVERVIEW

The fierce selling across Asian stock markets continued yesterday but took on a more selective aspect, *writes Jeffrey Brown*.

Hong Kong and Singapore continued to slide rapidly south with the latter extending its losses to more than 30 per cent in just six days' trading. But there were rallies in South Korea and Indonesia, while trading in Hong Kong shares in London managed to end with an overall gain.

With Wall Street recovering fairly rapidly from its initial attack of nerves – the Dow fell 100 points in the first eight minutes of trading – brokers were beginning to pinpoint signs of returning calm.

It was a tough day for most markets though. The D-Mark, up against the dollar, was a disincentive in Europe and most bourses ended with declines of more than 2 per cent.

Volumes were mostly thin as investors continued to hang fire. One result of this was that some portfolio cash balances were said to be looking embarrassingly high, given the continuing stream of optimism about European equities one year hence.

Gains this year of 16 per cent for French and Italian equities are widely predicted by London-based brokers.

The contrast with Asia could not be more marked. In Hong Kong, the crisis at securities group Peregrine may be hogging the headlines, but the real worries centre on the currency and earnings.

A near 50 per cent increase for inter-bank rates to 18 per cent over the past week indicates all too graphically the severity of the selling pressure on the Hong Kong dollar.

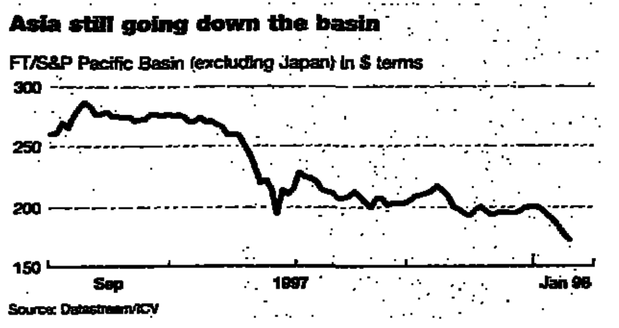
The feeling among brokers is that the authorities are hanging on in the hope that the Asian crisis can be fairly quickly defused. But it may be a near run thing.

As for earnings, downgrades are appearing thick and fast. Hong Kong profits rose 15 per cent in 1997. This year the consensus suggests a 10 per cent fall while many analysts are said to be privately nursing estimates of declines closer to 20 per cent.

Currencies, Page 27
London market, Page 34

Asia still going down the basin

FT/S&P Pacific Basin (excluding Japan) in $ terms



Source: Datastream/ICV

HK falls 8.7% on Peregrine crisis

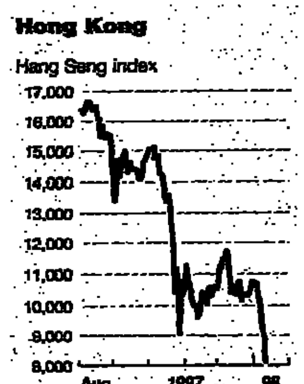
Rising local interest rates and the crisis facing Peregrine Investments sent Hong Kong into a tailspin and the Hang Seng index crashed 8.7 per cent.

The index plunged 773.58 to 8,121.06 after hitting a low of 7,909.13, the lowest level since March 1995. The Hang Seng has lost more than half its value since it reached its all-time high of 16,820.31 on August 7 1997.

In subsequent London trading, an indicative index rose 2.1 per cent to 8,294.36.

Hong Kong

Hang Seng index



Source: Datastream/ICV

China-linked stocks, regarded as having close ties with Peregrine, suffered the heaviest blows.

The China-Affiliated Corporation index dived 21.9 per cent and H-shares ended off 16.2 per cent.

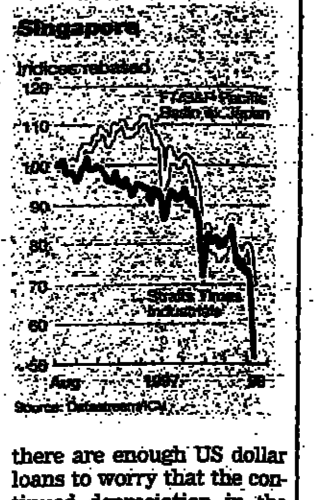
Analysts noted that surging local interbank rates cast a bearish shadow over the market. Additionally, leading Hong Kong banks raised their prime lending rates by 75 basis points to 10.25 per cent on Friday in response to the higher interbank rates. Brokers said there was speculation another rise is likely.

HSBC Holdings was among the biggest losers, diving HK$9.50 to HK$158.50. Sun Hung Kai Properties ended down HK$6.40 at HK$33.10 while Cheung Kong lost HK$4.20 to HK$33.60. Red-chip China Resources sank HK$2.35 to HK$9.40.

EMERGING MARKET FOCUS

Indonesia link hurts Singapore

Singapore



Source: Datastream/ICV

Investors abandoned Singapore's stock market yet again yesterday as its status as a south-east Asian safe haven was questioned because of its business ties to neighbouring Indonesia.

The Straits Times Industrials index plunged 8.8 per cent or 102.88 to end at 1,073.47. It has dropped more than 30 per cent since the start of the year.

Investors in the city state have spent the past six months watching share prices fall in neighbouring countries as economic frailties came into focus. They felt secure until fears mounted in recent days that the economic troubles in Indonesia could lead to social and political chaos.

"The Indonesian crisis hits a little bit closer to home than the problems in Korea or even Thailand," says David Cohen, senior economist at Standard & Poor's/MMS International in Singapore.

The importance of Indonesian stability to Singapore was illustrated last year, when Singapore offered Jakarta $5bn in balance of payments support, and a possible further $5bn to support the rupiah.

"Nobody wants to see social and political unrest in one of the world's most populated countries," said Daragh Maher, economist at ING Baring Securities (Singapore). Singapore is not only worried about the spillover of any rioting in Indonesia, but also fears the direct impact of any breakdown of Indonesia's economic system.

Singapore has ventured into Indonesia as part of its expansion in the region in search of a larger market than its 3m people can provide. With a population of nearly 200m, Indonesia is south-east Asia's biggest market.

Economists say it is unclear exactly how much money Singapore's banks have extended to Indonesian companies, but believe there are enough US dollar loans to worry that the continued depreciation in the rupiah could make it difficult to recoup those funds.

At the same time, many of the minority ethnic Chinese who control Indonesia's biggest companies have long seen Singapore – the only south-east Asian country with an ethnic Chinese majority – as a place to protect their money from any racial backlash at home. They have poured savings into Singapore's banks, property, and companies.

Economists fear these Indonesians might cease making mortgage payments and stop contributing to Singapore's retail, tourism and trade sectors.

Economists also believe Singapore may face similar difficulties with those from other regional countries affected by the downturn. The Singaporean economy grew at 7.6 per cent in 1997. But the government said it will have to revise its 1998 growth projection of between 5 and 7 per cent as the Asian crisis reduces regional trade, business for Singaporean banks and cuts into tourism.

ING's Maher, however, believes the fears that have overtaken investors are overstated. "The easiest thing to do is to believe the worst," he notes.

Sheila McNulty

Dow rallies strongly after early plunge

AMERICAS

US equities shrugged off a weak opening to send the main indices slightly higher by midday, *writes John Labate in New York*.

In the first minutes of trading the Dow Jones Industrial Average plunged more than 120 points before investors stepped in with buy orders. But by early afternoon the Dow was in rebound mode, up 16.69 at 7,597.11.

The broader Standard & Poor's 500 index was also on the mend, rising 4.32 at 932.01, while the technology-weighted Nasdaq composite index made gradual progress with a rise of 1.37 at 1,504.59.

Analysts were divided on how to read the market's midday recovery. "US and world markets are waking up to the fact that we can't quantify what's going on in Asia yet," said Michael Metz, chief investment strategist at Oppenheimer.

"The market breadth is almost 2 to 1 on the downside," added Mr Metz, who sees the morning turnaround as a temporary respite from the "buy on dips" mentality.

But Hugh Johnson, chief investment officer at First Albany, found some room for cautious optimism in the market's recovery.

"From time to time in the last few weeks it seemed that the market is prepared to put Asia behind them, and this may be one of those times. The real test is still ahead of us when we see the actual impact on sales and earnings," he added.

In the banking sector NationsBank reported earnings in line with expectations but its stock fell 3.5 per cent to $56⅝ when it said they expected the cost savings from its acquisition of Barnett Bank to be delayed.

Most banks edged lower, as the banking index of the Philadelphia Stock Exchange lost 7.62 or 1.1 per cent at 687.01. Federal Mogul's shares surged $1⅞ or 4.56 per cent at $41⅝ after announcing a $720m acquisition.

TORONTO tracked Wall Street, sliding steeply at the outset only to rally steadily as the morning progressed. At noon the 300 composite index was 96.53 or 1.5 per cent lower at 6,175.90 having been off 3 per cent soon after the opening bell.

Banks had a rough ride. Bank of Nova Scotia fell C$1.55 to C$63.40 and Canadian Imperial Bank of Commerce C$1.85 to C$39.55. Toronto-Dominion Bank fell C$1.20 to C$51.10 and Royal Bank of Canada 85 cents to C$74.15.

Elsewhere, BCE shed 55 cents to C$45.95 and Alcan Aluminium 40 cents to C$35.90. Golds were steady with Barrick hardening 15 cents to C$22.70.

Resilient Wall St helps Frankfurt pare losses

EUROPE

A more resilient early performance than many investors had expected from Wall Street enabled **FRANKFURT** to pare its losses but the market still closed 2.4 per cent down.

The Xetra Dax index picked up from a low of 4,053.89 to close 103.11 lower at 4,134.64. Construction, banking and the large exporters were the hardest hit sectors.

Hochtief fell DM8.50 to DM65.50, BMW lost DM62 to DM1,254 and Siemens was DM4.70 lower at DM545.

Preussag held its loss to DM4 at DM545, still benefiting from the news that the state of Lower Saxony and the Norddeutsche Landesbank planned to buy the majority in the steel unit Preussag Stahl.

PARIS came close to breaking down through 2,800 on the CAC 40 index as Asian worries bit deep into investor sentiment, but there was a clear rally early in the afternoon which the weak opening on Wall Street failed to dent.

Banks stayed firmly in the grip of scare stories about Asian lending. BNP slid FFr11 to FFr279 and Société Générale fell FFr24 to FFr700, but volumes were solid and brokers reported patches of fairly active two-way business. A softer day for the dollar plus scare stories about Hong Kong retail trade hit LVMH which came off FFr36.00 at FFr910.

Takeover talk continued to bubble up around Canal Plus, lifting the shares FFr10 to FFr1,174. But the best perforamnce of the day came from chipmaker SGS-Thompson which rallied strongly, adding FFr12.10 at FFr333.2. The CAC 40 ended 57.27 lower at 2,862.54.

AMSTERDAM narrowed its losses late in a session interrupted for several hours by a technical fault, but the AEX index still closed down 21.85 at 891.95.

Hagemeyer finished down Fl 2 at Fl 79, under pressure from news that First Pacific of Hong Kong planned to sell its 40 per cent stake.

Among internationals, Philips was down Fl 8 at Fl 114 in spite of a buy recommendation with a Fl 190 target price from ABN Amro Hoare Govett.

ZURICH went in the same direction as its neighbours and the SMI index closed 189.7 lower at 6,062.1.

Novartis tumbled SFr93 to SFr2,320 after its chief financial officer Raymund Breu denied persistent market speculation that the company was planning a share repurchase programme.

MILAN regained most of the ground lost during a morning session characterised by profit-taking. The Mibtel index ended just 47 lower at 17,633.

Industrial holding company HDP was in favour, gaining L11 to L1,204 after confirming it is buying the Valentino fashion house for $300m. Dealers said the price was attractive.

Olivetti rose L16 to L1,300 on news it was close to merging its computer systems unit with Wang of the US. Banca di Roma gained L63 to L1,990 after Goldman Sachs tipped the stock.

MADRID proved resilient, trimming early losses to close just 0.9 per cent lower. The general index was down 5.69 at 645.14.

BBV lost Pta40 to Pta5,060 after it emerged as a likely suitor for Banco Popular, widely seen as a takeover target. Chairman Emilio Ybarra said at the weekend a bid for Popular "could be interesting". Part of the fall was also attributed to the shares going ex-dividend on a Pta19 payment. Popular was Pta120 lower at Pta11,580. Sentiment was also hit by Salomon Smith Barney's decision to downgrade insurer Mapfre, down Pta30 at Pta3,960, on earnings worries.

HELSINKI was nervous ahead of fourth-quarter results from US mobile phone giant Motorola. Rival Nokia, which accounts for a third of the Finnish market, was FM30.50 lower at FM365 on fears the results would be bearish for the sector, driving the general index 127.79 lower at 3,220.43.

In **STOCKHOLM**, Ericsson was SKr114 lower at SKr276, pushing the general index 119.41 lower at 2,791.77.

ISTANBUL tumbled 10.8 per cent and analysts noted that an expected new year buying spree by foreign investors had failed to materialised. **ATHENS** was marked 5.1 per cent lower.

Eastern European markets were caught up in the general negative sentiment. **MOSCOW** lost 14.3 per cent although trading was minimal. **BUDAPEST** slipped 9 per cent and **BUCHAREST** closed 5 per cent lower.

Written and edited by Michael Morgan, Jeffrey Brown, Jonathan Ford and Peter Hall.

Caracas plummets 10%

CARACAS fell more than 10 per cent as worries about oil prices cut a deep swathe through investor sentiment.

Venezuela's oil export price dropped to $13 a barrel in early trading. This is $2.50 below the reference level used in the 1998 budget and it sparked a wave of heavily selling on the bourse. At midsession, the IBC index was off 784.47 at 7,070.10.

SAO PAULO fell heavily at the opening bell, but by midsession had pared its losses. The Bovespa index was 261 or 3 per cent lower at 866.52 at the end of the morning session. Telecommunications group Telebrás was off 1.3 per cent at R$111.01.

MEXICO CITY was little changed at midsession. The IPC index was down 22.21 at 4,569.95.

S Africa hits 27-month low

Johannesburg tumbled to a 27-month low, hit by the Asian economic crisis and an ailing bullion price. The overall index tumbled 394.0 or 6.6 per cent to 5,596.6. Industrials lost 6.5 per cent, down 468.7 at 6,715.1, and golds were 28.9 or 4 per cent lower at 697.4. Anglo-American tumbled R18 or 10.2 per cent to R159 while its sister company, De Beers, was R5.70 lower at R91.80.

FTSE Actuaries Share Indices — European series

January 12

National & Regional Markets	Ecu Index	Day's %	change points	Yield gross %	xd adj	Total retn (Ecu)
FTSE Eurotop 300	971.93	−2.23	−22.13	2.29	0.08	979.74
FTSE Eurotop 100	2236.40	−2.22	−50.88	–	–	–
FTSE Eurotop 300 Regions						
300 UK	978.13	−1.83	−18.22	3.22	0.15	994.87
300 Ex-UK	968.96	−2.45	−24.35	1.76	0.04	971.72
300 Eurobloc	948.09	−2.32	−22.55	1.98	0.07	952.10
300 Ex-Eurobloc	991.35	−2.16	−21.87	2.50	0.09	1001.97
FTSE Eurotop 300 Economic Groups						
Resources	878.55	−2.38	−21.42	3.11	0.00	891.27
General Industries	892.45	−2.97	−27.33	2.19	0.04	894.63
Consumer Goods	976.83	−2.56	−25.70	1.86	0.00	987.37
Services	971.07	−1.54	−15.15	2.30	0.46	979.43
Utilities	1050.61	−0.50	−5.26	2.64	0.00	1064.42
Financials	1038.39	−2.34	−24.85	2.21	0.07	1044.38

Base value 1000. More information on http://www.ftse.com 'FTSE' and 'Footsie' are registered trade marks of the London Stock Exchange and The Financial Times. 'Eurotop' is a registered trade mark of the Amsterdam Stock Exchange. FTSE Eurotop indices are compiled by FTSE International.

Tokyo sinks to 30-month low

ASIA PACIFIC

Shares in **TOKYO** fell to their lowest level in 30 months, hit by Friday's shakeout in New York and disappointment at the failure of Japan's prime minister to indicate further stimulus measures in a speech to parliament, *writes Michiyo Nakamoto in Tokyo*.

The Nikkei 225 average fell 330.66 or 2.2 per cent to 14,664.44 after trading between 14,909.29 and 14,628.67. Turnover was a modest 316m shares compared with 399m on Friday. The broad-based Topix index slipped 28.58 or 2.5 per cent to 1,120.61. Declining issues led advancers 884 to 208.

Investors were discouraged by Ryutaro Hashimoto's speech in which he failed to outline any specific additional measures to support economic recovery.

The sharp fall in New York on Friday, coupled with the continued steep decline for stock markets across Asia, also depressed investor sentiment.

High-tech stock were sold in the wake of jittery moves in New York. Sony lost Y400 to Y11,700, NEC Y30 to Y1,430 and Fujitsu Y50 to Y1,380. Aiwa lost Y360 to Y3,350.

Steelmakers continued to lose ground as their prospects were seen to be gloomy against a background of falling domestic demand and the improving cost competitiveness of their rivals in Korea as a result of the sharp decline in the Korean currency.

CHANGES ON THE DAY

	% change
Singapore	-8.8
Hong Kong	-8.7
Taipei	-4.7
Bangkok	-3.0
Kuala Lumpur	-2.9
Wellington	-2.5
Sydney	-2.3
Tokyo	-2.2
Manila	+1.0
Jakarta	+2.1
Seoul	+3.5

SYDNEY fell 2.3 per cent in moderate turnover with the All Ordinaries index closing off 60.7 at 2,542.4. Shares with above average Asian exposure were heavily sold. QBE Insurance fell 41 cents to A$6.70 and Coca-Cola Amatil 50 cents to A$10.00. Among golds, Normany Mining gave up 12 cents or 8.2 per cent at A$1.34.

SHANGHAI fell to a record low for hard currency B shares. There was said to be heavy selling by Hong Kong funds and the B shares index fell 4.08 or 9 per cent to 40.90.

SEOUL bucked the regional trend, gaining 3.5 per cent on heavy buying fuelled by hopes that South Korea's financial crisis is beginning to ease. Total volume on the Seoul exchange was 113.06m shares, beating the previous record of 111.95m set on December 6.

The composite index rose 15.42 to 456.20 as brokers' comments that foreign institutions would roll over South Korean debt and a more stable won boosted sentiment.

Banks performed strongly on hopes of stakebuilding by foreign institutions. Seoul Bank gained Won80 to Won1,180 and Korea First Bank Won90 at Won1,270.

TAIPEI fell steeply with the weighted index closing 362.06 or 4.7 per cent lower at 7,375.14. The heavyweight electronics sector shed 5.9 per cent as Asian growth worries and the shakeout for tech shares on Wall Street sent investors scurrying for cover.

Taiwan Semiconductor and United Microchip both ended limit down with declines of 7 per cent to T$101.00 and T$56.00.

JAKARTA also gained ground, with state-controlled companies rallying on hopes of government support. Sentiment was also helped as President Suharto pledged his commitment to economic reform in telephone conversations with world leaders. The composite index gained 7.27 or 2.1 per cent to 350.24.

Among state-controlled companies, Telkom gained Rp275 to Rp2,775 while Bank Negara rose Rp50 to Rp500. Dealers said there were signs that the government was intervening to support the market. State-controlled brokerage Bahana Securities was actively buying selected stocks, they said.

KARACHI lost almost 4.5 per cent as analysts warned that foreign fund managers were likely to allocate far less money to the market in 1998 as a result of the Asian crisis. The Karachi 100 index fell 70.58 to 1,502.20.

GLOBAL BUSINESS OUTLOOK

Companies worldwide are being affected by a regional financial crisis that may influence their strategies for years. **Stefan Wagstyl** reports

Asia shockwaves still spreading

Simon Fell

IN THIS SURVEY

- Air travel
- Aerospace & defence
- Energy Page 2
- Motor industry
- Environment Page 3
- Pharmaceuticals
- Telecommunications
- Media Page 4
- Information technology
- IT companies
- Chemicals Page 6
- Food and drink
- Sports goods
- Global manufacturing Page 8

If the business world needed a reminder that globalisation brings risks as well as rewards, it has come in the shape of the economic crisis in east Asia. The region which has acted as an engine of global growth for decades has slowed suddenly, shaking almost everybody on board.

ABB, the Swiss-Swedish engineering group, Oracle, the US software group, and Toyota Motor, the Japanese carmaker, were among the first multinational companies to indicate their earnings would be hit.

The impact in the crisis-hit countries is far more serious, especially in South Korea, where Hanbo Steel, with debts of $6bn, heads the list of companies which have gone bankrupt. The Korean government is negotiating with governments and banks in industrialised countries over restructuring its finances.

How deep the crisis will go and how long it will last depends principally on how quickly the governments and the people of the region succeed in rebuilding confidence in their economies.

Percy Barnevik, the ABB chairman, said in a recent speech that the east Asian downturn would be shallower and shorter than Mexico's, which lasted two years. But Osamu Suzuki, president of Suzuki Motor, the Japanese carmaker, says: "The situation is bad. It will take five years before Asia recovers."

The International Monetary Fund warns that financial turmoil in Asia could knock nearly 1 per cent off potential output in the developed world in 1998. It has reduced its growth forecast to 3.5 per cent, compared with 4.1 per cent in 1997. The biggest impact in the developed world will be in Japan, where the IMF expects the economy to grow just 1.1 per cent in 1998, compared with an earlier forecast of 2.1 per cent. The US and the EU are forecast to weather the storm much better.

However, some economists say the IMF is being unduly optimistic. They point to the postponement of the £1bn microchip plant being built in Scotland by Hyundai, the Korean conglomerate, as an example of the far-reaching and unpredictable impact of the Asian turmoil. They also argue that the true extent of east Asia's financial crisis is still unclear – even in Japan, where the problems date back to the 1980s.

Neil Saker, regional economist at SocGen-Crosby, a stockbroker specialising in east Asia, said in an end-of-year report that the region was in a downward spiral which could wreak "profound economic damage".

The effects are being felt outside the financial arena, particularly in price-sensitive commodity markets with short-term supply contracts. North American and European steelmakers say south-east Asia, for so long a net importer of steel to feed its construction schemes, is cutting orders. For the moment, the effects are being offset by continuing strong demand from China.

But steelmakers, like companies in many other sectors, are wondering how long China can protect itself from the chill winds blowing through the rest of the region.

The sharp devaluation of the Korean won and other currencies will reduce east Asia's capacity to import but greatly enhance its export competitiveness, to the potential anguish of manufacturers in Japan, North America and Europe.

Big multinationals such as Matsushita Electric Industrial, the Japanese consumer electronics group, Philips, of the Netherlands, and Seagate, the American maker of computer parts, which have south-east Asian production bases will be able to protect themselves by increasing regional output. But smaller, more domestically-oriented manufacturers, seem likely to suffer from increased competition. As Francis Mer, chairman of Usinor Sacilor, the French steelmaker, says: "The impact on trade could be very serious, especially if China followed other countries in devaluing."

The satisfactory resolution of the Mexican economic crisis of the early 1990s shows the current economic turmoil need not end in disaster. On the other hand, the long period of stagflation which followed the Latin American debt crisis of the 1980s demonstrates that not every attempt at concerted international action has a happy ending.

Meanwhile, as companies struggle with the swings of the macroeconomic cycle, long-term secular trends will continue to shape and change markets. The most significant are:

● International trade and investment. Despite the east Asian turmoil, cross-border trade and investment are expected to continue growing rapidly as companies seek both customers and supply sources in developing countries. Even if trade growth falls short of the Organisation for Economic Co-operation and Development's forecast of 8.2 per cent, it seems likely to grow faster than economic output, with emerging regions such as Latin America making an increased contribution.

Even smaller companies which were once content to plough their own domestic furrows are starting to think globally, notably North American groups which could previously afford to limit themselves to the vast US home market. For example, United Dominion Industries, a diversified engineering group with a turnover of about $2bn, last year posted its first senior executive overseas – to the UK – to oversee corporate expansion. Bill Holland, chairman, says: "We Americans are well known for being obsessed with our home market. However, there are now lots of companies like us which are not world scale but getting there."

● Liberalisation. The US Congress's rejection of President Bill Clinton's request for fast-track negotiating powers on trade agreements indicates some caution about further trade liberalisation, which might become more serious if east Asian countries boost exports to lift themselves out of the current crisis. However, the World Trade Organisation's agreement on the liberalisation of financial services indicates that the winds in favour of more international deregulation remain strong. Domestic deregulation – such as in the US and EU energy markets – is also creating big new commercial opportunities.

● Technology. Since the 1970s, the capacity of a microchip has doubled every 18 months and shows every sign of continuing to do so, notably with the spread of system-on-a-chip devices combining a microprocessor and a memory on the same silicon wafer. The technological advance is generating quantum leaps in communications, the effects of which are are well summarised in a recent book by Frances Cairncross called *The Death of Distance* in which she argues that faster communications will do everything from tying different corners of the world closer together to fostering world peace.

Companies are processing information faster both inside their own organisations and with suppliers and customers and other outsiders. They are becoming better able to develop products faster and introduce them more quickly in different regions. Those that take advantage of this potential emerge as winners; the rest become also-rans. For example, in motors, Honda Motor's ability to design its Odyssey sport utility car in less than two years and launch it in the US and Europe as well as in Japan turned a useful money-spinner into a world-beater. Next year is bound to see similar successes.

● Outsourcing. With the help of IT, companies are restructuring their organisations, dissecting even their core activities, to split the functions they do best themselves from those they do not. Especially in IT-related fields, consultants are being brought in to handle not just day-to-day data processing but to take over key functions such as the computerised management of client accounts. British Steel has recently signed such a far-reaching outsourcing deal with Cap Gemini, the French-owned consultancy. Keith Burgess, global managing partner for outsourcing business at Andersen Consulting, the management consultant, says: "The corporate world is changing."

● Branding. The speed of communications is increasing the value of the global brand. Coca-Cola, Nike, and Sony are better known in much of the developing world than the names of any statesman. Branding gives a

Continued on Page 2

BANKING • by George Graham

Survival of the biggest

A wave of M&A has reshaped the industry, but stuck largely to national deals

How big is big? Bankers are finding that the bar has risen several notches after a wave of mergers and acquisitions that has completely reshaped the face of the international financial industry.

Across a range of financial sectors, bankers have signed up to the dogma that the table is being cleared for a handful of giants, with room still for niche players but little space for the middle-sized.

In the US, Hugh McColl, chairman of NationsBank, declared that banking had entered a four-year endgame after he bought Barnett Banks, of Florida, for $15bn. His words gained strength when First Union, NationsBank's North Carolina neighbour, announced a $16bn bid for CoreStates.

In Europe, the long-expected shake-up of Belgium's banking sector came when ING launched an agreed offer for Banque Bruxelles Lambert, while Germany made a start at restructuring with the merger of Bayerische Vereinsbank and Bayerische Hypobank.

Switzerland's financial sector saw Credit Suisse's takeover of the Winterthur insurance group capped by the merger of Swiss Bank Corporation and Union Bank of Switzerland.

In Asia, consolidation of a different sort is taking place. The belated recognition of non-performing loans is sending the weaker institutions to the wall. Even in Japan, some of the country's biggest banks and brokers have been allowed to fail.

With the Asian economic crisis bringing new pressure to bear on businesses in Europe and the US, credit quality may be about to re-emerge as a concern, and could even increase the pressure for consolidation.

The Swiss banking merger had dramatic consequences for the global private banking sector, creating a new giant managing $580bn of private client assets, as well as for institutional fund management – another sector where the pace of consolidation has been quickening with deals such as Merrill Lynch's takeover of the UK's Mercury Asset Management.

But the most dramatic changes came in the investment banking arena, where Morgan Stanley merged with Dean Witter Discover, Salomon Brothers was taken over by Travelers and merged with its Smith Barney affiliate, and a range of specialised or regional investment banks – from Alex Brown to Quick & Reilly – found new commercial banking parents.

Many investment bankers now believe the battle for membership of a "global bulge bracket" of dominant firms is now reaching its closing stages.

"In a lot of industries – telecoms, pharmaceuticals, for example – it is not unusual to see five global giants survive. Five seems to be the magic number," says Hans de Gier, head of the new Warburg Dillon Read investment bank which will emerge from the absorption of UBS's investment banking operations by SBC. "In investment banking, too, you will see a handful of global firms which have the cost base but also have the revenue base to support this vision."

Some banks have already reached the conclusion that they cannot realistically hope to be part of that select group, and have scaled back their investment banking ambitions accordingly. In the UK, both Barclays and National Westminster have sold most of their equity operations and now concentrate solely on debt – more closely linked to their traditional banking businesses.

Spiralling pay packets for traders and investment bankers have made it difficult for the mid-sized contenders to stay in the race. They have to pay people just as much or more, but don't get as much revenue out of them as a global firm.

"To take someone out of a bulge bracket firm and put them in a second tier business is hugely value-destroying," says Martin Taylor, chief executive of Barclays.

In the retail banking sector, some of the talk sounds familiar.

Edward Crutchfield, chairman of First Union, recently warned smaller traditional banks that they were "a declining, dying, going-away business. Merger mania will last until there are 10 or 12 or maybe 15 dominant financial services."

But, with very few exceptions, consolidation in the retail banking sector remains obstinately national in character. ING's takeover of BBL represents one example of a cross-border deal, and borders are also eroding in Scandinavia. But most British banks have burnt their fingers badly both in continental Europe and the US, and some other efforts to cross national boundaries, such as Crédit Lyonnais's 1980s spree, have also not worked.

In the US, there remains plenty of room for the kind of consolidation Mr Crutchfield is talking about without stretching overseas. The number of commercial banks reporting to the Federal Deposit Insurance Corporation has shrunk from 11,462 in 1992 to 9,215 this year, but that still leaves the US with far more financial institutions in proportion to its population, though fewer branches, than comparable countries.

In countries such as the UK and France, there may still be room for some further consolidation, but banks in the Netherlands and Ireland already have to look abroad for a second home market.

One obstacle to further consolidation is that retail banking has proved stubbornly resistant to economies of scale. In specific activities, such as credit card processing or securities custody, unit costs fall rapidly with size, and some focused categories of bank show evidence of economies of scale. In banking more generally, however, complexity has in the past tended to offset any benefits accruing from size.

That may be changing with the increasing intensity of IT use in banking. The cost of software development is proving to be one of biggest factors in sorting the sheep from the goats, with 14 banks estimated to be spending more than $1bn a year on IT.

Leading banks

	Country	Assets (US$bn)
Bank of Tokyo-Mitsubishi	Japan	653.012†
Deutsche Bank	Germany	536.318*
Credit Agricole	France	477.328*
Sumitomo Bank	Japan	460.188†
Ind & Comm Bank of China	China	437.392*
Dai-Ichi Kangyo Bank	Japan	433.665†
Fuji Bank	Japan	432.584†
Sanwa Bank	Japan	427.265†
Sakura Bank	Japan	422.598†
HSBC Holdings	UK	401.685*

* At December 31 1996; † At March 31 1997. Source: IBCA

AIR TRAVEL • by Michael Skapinker

All eyes on alliance verdict

BA's planned link with American is unlikely to be the industry's final partnership

Early this year, officials in Washington and Brussels will decide whether to allow British Airways and American Airlines to form an alliance. Their decision could determine the shape of the industry for decades to come.

If the alliance, which was first announced in June 1996, goes ahead, BA and American will be one of the most powerful airline combinations the industry has seen. It will dominate flights between the UK and the US, the two busiest international aviation markets.

It will also lead to the conclusion of an "open skies" agreement between the UK and the US – which Washington has made a pre-condition for its approval of the alliance. That would open London's Heathrow, the world's busiest international airport, to competition from all the large US carriers. Only two US airlines, American and United Airlines, are allowed to fly into the airport under the terms of the existing agreement between the two countries.

If, on the other hand, the US department of transportation and the European Commission veto the planned alliance, the airline industry's scramble to find new partners will not diminish. Indeed, it is likely to intensify.

Almost all airlines see it as important to have links with other carriers. Although airline profits are reasonably healthy at present, the industry has historically found it difficult to make money on a consistent basis.

Although airline fares have been relatively high in recent months, their long-term trend is downward. Increased liberalisation, greater competition and the growth of low-fare airlines have made it more difficult for carriers to raise their fares.

At the same time, running an airline remains expensive. Aircraft can cost hundreds of millions of dollars to buy and are expensive to maintain. Airlines have responded by cutting costs, often by contracting out subsidiary activities such as in-flight catering.

They are also attempting to increase passenger volumes and ensure maximum utilisation of their aircraft. This is why they are forming alliances. By teaming up with other airlines they can offer passengers journeys to destinations they do not serve themselves.

Take, for example, an alliance between a European carrier and a US airline. The European carrier is likely to offer flights to several important US cities but not to the smaller centres. After forming its alliance, however, it can sell its customers onward journeys to the smaller airports on its partner's flights.

In many cases airlines even put their two-letter codes on their partners' flights as if they were operating the service themselves. This is known as "code-sharing".

The biggest airline grouping formed so far, the Star Alliance, has six members: United Airlines (US), Lufthansa (Germany), Scandinavian Airlines System, Air Canada, Thai Airlines, and Varig (Brazil).

In theory, the global nature of the alliance means that it should be able to offer flights to almost any airport in the world. Travel agents report, however, that while the Lufthansa-United link is a powerful one, the Star Alliance as a whole has yet to show its power.

BA and American say, however, that the Star Alliance is winning some corporate customers away from them. They argue that it is unfair that Star Alliance has been allowed to start operating while BA and American are still waiting for regulatory approval.

Karel Van Miert, the EU competition commissioner, says, however, that he cannot stop Lufthansa and United from operating as they have received anti-trust immunity from the US authorities, which allows them to co-ordinate flights and fares. He says that Brussels has yet to give its approval to Star Alliance, and he could still require the airlines to give up take-off and landing slots.

While the airlines regard the alliances as important, there is some doubt over how durable they will prove to be. Virgin Atlantic, of the UK, and Delta Air Lines, of the US, announced the end of their alliance last year. Virgin has teamed up instead with Continental Airlines.

Delta has an alliance with Swissair, Austrian Airlines and Sabena, of Belgium, but last year lost its Asian partner, Singapore Airlines. Singapore has concluded a partnership with Lufthansa instead, although the Asian carrier has not yet become a full member of the Star Alliance.

Cheong Choong Kong, Singapore's chief executive, says the link with Lufthansa was a long-term one. He said: "Don't make the mistake of thinking this is just another one of those alliances. This is special."

However, Robert Coggin, Delta's executive vice-president, says: "As competitive and strategic needs change, it's natural that agreements among airline change as they pursue their separate interests."

It is unlikely that 1998 will pass without a further reshuffling of airline partnerships.

Leading airlines

	Country	Passengers carried (m)*
Delta Air Lines	US	97.281
United Airlines	US	81.863
American Airlines	US	79.324
US Airways	US	56.640
Northwest Airlines	US	52.682
All Nippon Airways	Japan	39.377
Continental	US	35.743
British Airways	UK	33.169
Lufthansa	Germany	33.118
Japan Airlines	Japan	29.979

* 1996 international and domestics scheduled passengers. Source: IATA

Jerry Greenwald, chairman and chief executive of United Airlines

The constant challenge for airlines is to keep a tight rein on costs and combine this with a relentless focus on customer service. For those that are winning this battle, 1998 promises to be a profitable year. Demand from passengers and cargo shippers is generally strong; key markets continue to grow; capacity growth is modest; and fuel prices are steady. Weakness is Asia is a problem, but will be felt most in intra-Asian markets. Globally, competitive airline alliance networks will increasingly deliver real benefits for travellers. However, the competition authorities will have a role to play in ensuring that all alliances compete fairly, based on truly open markets and without excessive markets concentration.

AEROSPACE AND DEFENCE • by Alexander Nicoll

Cuts provide opportunity for strength

Europe begins to realise that some American-style shake-outs are needed now

Because the number of leading aircraft and weapons manufacturers in the world is steadily declining, it might be concluded that their prospects were bleak. But this is not so.

The US industry has gone through an extraordinarily rapid shake-out which has seen some big names – most recently McDonnell Douglas and soon Northrop Grumman – disappearing. Europe is beginning to realise that it must accelerate a rationalisation which has been happening far too slowly.

If big European mergers do occur, the prospects are that both the US and Europe will have created big players in both the aerospace and defence businesses which should see healthy business for some time to come.

Although the general move is to bring together civil and military contractors on the argument that this can bring synergies and savings, there is, in fact, a big difference in the climates of the two sectors.

Manufacture of passenger aircraft is booming as a result of strong growth in western and (until recently) Asian economies. Airlines have been doing well and putting in big orders.

This means that Boeing and Airbus, which are by far the largest suppliers, are booming and have order books which, even if the Asian downturn brings some cancellations, will last them for years.

For Boeing, the surfeit of orders proved too much. Last year it stepped up production from 18 aircraft per month to 40, and this put an intolerable burden on its own processes as well as those of its suppliers. In October, it had to stop making the 747 model while supplies caught up.

Boeing believes that a 20-day stoppage was not a serious setback given the scale of what it was attempting, which it describes as "the steepest production increases since the dawn of the jet age". Ron Woodard, head of its civil aircraft business, says the company came close to achieving its target of 43 aircraft a month without any problems. "We were very close to being able to muscle our way through it," he says.

However, the production bottlenecks were expensive. Boeing also temporarily stopped making its new 700 version of the smaller 737 jet partly because of technical problems. The combined effect was a $1.6bn charge against profits, pushing it into a net loss for the third quarter, with the possibility of further write-offs to come.

Boeing has also been coping with the absorption of McDonnell Douglas, and announced in November that it would stop making the MD-80 and MD-90 aircraft, though it had high hopes for the larger MD-11 and is still considering the fate of the MD-95, the group's smallest model. It also has yet to take potentially painful decisions about the workforce at Long Beach, California, where tens of thousands of ex-Douglas and supplier company jobs are at stake.

With the disappearance of McDonnell Douglas, however, Boeing's only real competition is from Airbus Industrie, the Toulouse-based grouping which is owned 38 per cent each by Aerospatiale, of France, and Daimler-Benz Aerospace, of Germany, with 20 per cent held by British Aerospace and 4 per cent by Casa, of Spain.

Airbus, too, has a booming order book. But its performance is difficult to assess as it publishes no financial figures. This will change when it becomes a corporate entity, which is scheduled to occur by the beginning of 1999.

The reorganisation of Airbus could trigger rationalisation of Europe's defence companies following an initiative announced in December by the French, British and German governments. They appear to favour using Airbus as the base for integrated civil and military business, much as the US has achieved with Boeing, Lockheed Martin and Raytheon.

Arms manufacturers, in contrast to civil aircraft builders, have seen a huge contraction in their markets since the end of the Cold War as governments have taken the opportunity to cut spending. Nato members' defence budgets have fallen by 18 per cent in real terms since 1985.

However, for the slimmed-down US troika and their suppliers there are still plenty of orders to be won. The US government still had $77bn to spend in 1996 on procurement and research into new weapons, and the defence budget seems unlikely to face further significant cuts while tensions remain in the Middle East and the Korean peninsula.

The situation is somewhat different in Europe, where Nato member-governments spent only $47bn on procurement and R&D in 1996 but a far larger number of defence companies still survived.

British Aerospace, which has recovered from severe financial problems in the past few years and is thus leaner than many of its European rivals, favours formation of a European civil/military conglomerate which would be seen as domestic enough in each country to win arms orders from governments.

However, there are huge obstacles in the way of this solution: governments have been unwilling for political reasons to buy much from foreign companies or to harmonise their procurement. In France, much of the defence sector remains publicly-owned, making it difficult to create a merged company which would appeal to private shareholders. And not all potential participants favour large-scale integration, which some fear will hamper their chances of winning orders in the US.

For the time being, projects such as the £42bn Eurofighter aircraft will keep order books healthy for many European companies.

But the relatively small size of European companies and lower R&D spending, which hampers development of new technology, could eventually mean that most will not be able to compete with the US giants even in their own countries. This will mean that the best of them occupy niche positions, mainly as sub-contractors to the Americans.

By the end of 1999, it will be easier to see to what extent the Europeans will pose a challenge in the defence business.

Boeing's production line: surfeit of orders caused problems

Leading aerospace and defence companies

	Country	1996 sales (US$bn)
Boeing	US	36.515
Lockheed Martin	US	26.875
Raytheon	US	12.331
GEC	UK	10.722
British Aerospace	UK	10.668
Lagardere	France	9.426
Aerospatiale	France	8.504
Northrop Grumman*	US	8.071
Daimler-Benz Aerospace	Germany	7.302
Thomson CSF	France	6.062

* Northrop Grumman is to be acquired by Lockheed Martin; Airbus sales are included in those its its owners. Source: FT Library research

ENERGY • by Robert Corzine

Prices, costs dominate

Slower economic growth in east Asia likely to sharply reduce demand for oil

The level of oil prices and industry costs are likely to be dominant themes in the global petroleum and natural gas industry in 1998.

Oil prices fell steadily in the aftermath of the November meeting of the Organisation of Petroleum Exporting Countries (Opec), which decided to increase its production ceiling by 10 per cent to 27.5m barrels a day.

A number of factors are likely to determine whether that decision was ill-timed, or whether the world will be able to absorb the additional Opec output.

Industry analysts expect the economic turmoil in Asia to be an important factor in the coming months. One school of thought suggests that a sharp reduction in income growth in the region and a rise in petroleum product prices will cut deeply into demand.

"It's a double whammy," says Robert Mabro at the Oxford Institute for Energy Studies. "The devaluation of the region's currencies make (US dollar-denominated) oil more expensive and there will be lower economic growth."

In recent years Asia has accounted for about half of the increased world demand for oil. Analysts are especially concerned about the impact of the slump on China and India, the region's two biggest energy markets. Recent growth in oil consumption in China has been a big factor in overall global demand: figures from the International Energy Agency (IEA) show that Chinese demand in September rose almost 15 per cent year-on-year, well above the global figure of just over 3 per cent.

Those who defend the Opec move say oil demand in industrialising countries often differs from that in the developed world, where there is a strong correlation between economic growth and petroleum consumption. They claim that the economic restructuring faced by a number of Asian economies will tend to prop up oil demand, even if overall growth is subdued.

Another big factor is the rate at which non-Opec producers increase their output in 1998. The IEA, which monitors world oil markets on behalf of the industrialised world, has stuck to its controversial forecast that non-Opec production will grow by 1.9m barrels a day. If correct, that means there would be little room for Opec's planned expansion.

The bullish view of the IEA is disputed by many in the industry. They believe non-Opec output will rise by between 1m b/d and 1.3m b/d.

Saudi Arabia is likely to prove crucial to overall prices in 1998. A recent report by the London-based Centre for Global Energy Studies said: "If Iraqi oil continues to flow steadily in 1998, the price of oil will depend crucially on the Kingdom's output stance."

Many hope that Saudi Arabia will be "careful" when it comes to producing its full quota if prices fall steeply. Saudi Arabia, the world's biggest oil exporter, has repeatedly rejected the "swing producer" role, but analysts point out it has relatively little financial room to manoeuvre should average prices fall by more than $1.65 below the 1997 average of roughly $19 a barrel.

Other factors that are expected to influence the oil price in the coming year include Iraq. Iraqi exports under the United Nations oil-for-food programme have proved erratic, but many industry observers expect that the programme will be expanded in 1998, given the continuing humanitarian needs within the country.

The threat of lower crude oil prices coincides with a rising cost profile for the industry. Rates for key pieces of equipment, such as drilling rigs, have risen relentlessly over the past two years. It has coincided with a shortage of skills in some sectors of the industry. This has been partially brought about by the industry-wide reduction in manpower over the past decade, a trend which some expect to be reversed in coming years.

The shortage of rigs has been one reason behind the delays over the past year in bringing a number of new non-Opec fields onstream. It was also one the factors which persuaded Saudi policy-makers that they could safely push for an expansion of Opec output.

The industry may also find its taxes rising in 1998, say some analysts. In recent years governments have competed against each other to attract oil investment.

"Governments were long on opportunities but short on investment funds," says Gundi Royle at Deutsche Morgan Grenfell in London. "But the industry was in the opposite situation." She and other analysts believe the industry's relatively high rates of return of capital employed are being noticed by governments keen to secure additional revenues.

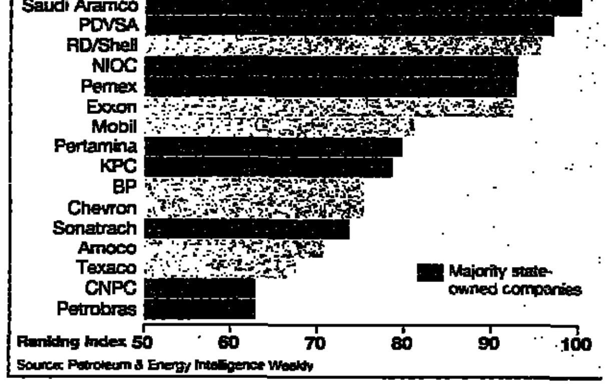
The high asset values in the sector in recent years have generally deterred mergers and acquisition activity. But a period of low prices "could be the catalyst for renewed M&A activity", according to one industry executive. "The industry is definitely positioning itself for more mergers," he adds.

Higher finding and development costs could also encourage more acquisitions, as asset values would not appear as high relative to the expense of finding and developing oil fields.

The higher risk profile of the industry also argues for more mergers, say some observers. "You need to create stronger units that are up to the task of the technical challenges of drilling in deep water and which can handle the commercial risk of moving more deeply into emerging markets," says one executive.

The environmental and social impact of large-scale oil developments is also expected to be an issue, with some companies sensing a possible competitive advantage in being perceived as being particularly adept at dealing with potentially controversial developments.

PIW ranking of leading oil companies



Source: Petroleum & Energy Intelligence Weekly

Asia shockwaves are still spreading

Continued from Page 1

big advantage to the multinational over local producers. But the strongest local brands can prosper – as Nirma detergents in India and Wedel chocolate in Poland show.

Many of these shifts in the nature of world markets favour big well-resourcesd companies with well-established national networks. Mr Barnevik, of ABB, argues that his group's global organisation is a more enduring competitive advantage than a new piece of technology which rivals can easily replicate. However, the future leaves plenty of room for smaller companies, which are often quicker at seizing opportunities and more willing to take risks. *For example, the internet* has spawned a host of new companies as well as generating business for established giants such as Microsoft, the US software company.

Nor does globalisation mean an end to diversity. Even within multinational companies there are marked *differences in the cultures of* different national subsidiaries. Taking account of this diversity while pursuing global targets remains a significant challenge for even the most global companies.

MOTOR INDUSTRY • by Haig Simonian

There's room for optimism

Time could be ripe for carmakers to focus on cutting costs in distribution

Leading automotive groups

	Country	1996 sales ($bn)
General Motors	US	145.4
Ford	US	118.0
Toyota*	Japan	105.6
Daimler-Benz	Germany	60.5
Volkswagen	Germany	64.6
Chrysler	US	58.0
Nissan*	Japan	57.4
Fiat**	Italy	53.9
Honda	Japan	45.7
Renault	France	35.4

* To year end March 31 1997. **Includes non-vehicles activities. Source: Company reports

Economic earthquakes in Asia and their aftershocks in South America will remain the dominant themes for the motor industry in the year ahead. But, when considered in perspective, the upheavals of late 1997 are unlikely to represent much more than distant rumbles in the relentless globalisation of the world's biggest manufacturing industry.

Analysts looking beyond the short or medium term have even found grounds for optimism from the convulsions which have sent sales into free-fall in most of south-east Asia and had repercussions in much of South America.

They argue that the recent turmoil represents an essential break from the remorseless rise in the world's vehicle production capacity beyond 50m units a year. Investment decisions will be reconsidered in the light of the latest circumstances, prompting postponements and, occasionally, cancellations.

Some shakeout is also inevitable as undercapitalised but over-ambitious manufacturers go to the wall. The acquisition of a majority stake in Ssangyong Motors by Daewoo, a bigger South Korean counterpart, may be part of a painful, but necessary, restructuring.

Kia, Korea's second biggest carmaker, may follow. The company's fate remains in the balance after a government rescue in November. Many observers expect its car and commercial vehicles divisions to be divided between stronger Korean rivals, in spite of ministerial assertions that Kia will remain independent.

Similarly painful medicine may be required in Malaysia and Indonesia, where government policies to encourage "national" vehicle programmes now look out of key with the changed economic circumstances.

The Asian events will have repercussions in other markets. In Europe and, to a lesser extent, the US, carmakers are concerned they will be flooded with low-priced imports as hard-pressed Asian manufacturers compensate for declining domestic demand by stepping up foreign sales.

Some Japanese car companies have already said they intend to intensify exports to make up for sluggish sales at home. Such reactions could trigger renewed trade frictions with Washington. In Europe, local producers will be monitoring sales of Japanese and Korean brands closely.

But the Asian turmoil will prove less disruptive abroad than first feared if demand in the US and Europe – the world's two biggest car markets – remains buoyant.

Analysts expect demand to stay strong in the US – the seventh successive year of vibrant sales. Demand in Europe is not expected to repeat the higher-than-expected figure for 1997, when sales came much closer to their historical 14m unit peak than anyone expected. However, sales will remain lively as long as demand is boosted by special government incentive schemes, such as in Italy.

Eastern Europe and the former Soviet Union should continue growing strongly – prompting further direct investment along the lines of the joint ventures established by Fiat and by Renault in 1996.

The outlook for South America is less clear. Demand for cars in Brazil – the region's biggest market – fell sharply in the closing months of 1997 after the government pushed up interest rates to protect the domestic currency from speculators. The effect was to choke off demand for consumer credit, which had fuelled the sharp rise in car sales during the year. The prognosis for 1998 depend on analysts' differing view of how quickly interest rates will drop.

Irrespective of the events in Asia, western manufacturers will remain under pressure to shorten their product development times and to cut production costs to remain competitive. The coming year may also bring the long-awaited focus on streamlining distribution – the last main cost centre after production and purchasing to be pared down.

Product development engineers will see no respite in manufacturers' demands for new products to cover every niche of the market. In Europe, that will mean more compact multi-purpose vehicles to compete with Renault's highly successful Mégane Scenic model, which has had the field largely to itself. More urban minicars are also expected, although their makers will hope to avoid the embarrassing upsets which marred the launch of Mercedes-Benz's A-Class mini-car.

US carmakers will continue to develop "recreational vehicles" to compensate for the decline in demand for traditional passenger cars. However, there are signs the boom in demand for "RVs" is changing: while sales of multi-passenger minivans may be softening, demand for sports utility vehicles – and especially the biggest and most expensive variants – looks rock solid.

The supply base, meanwhile, will continue to consolidate although the pace of concentration may slow as the number of big acquisition candidates dwindles and takeover targets obtain a rarity value.

Rather than independent supply companies, the focus in 1998 may shift to General Motors and Ford, which have hived off their component operations into separate subsidiaries. GM's Delphi arm is putting its house in order by selling three big operations, including seating, to prepare for its stock market flotation.

Ford's recently renamed Visteon subsidiary operation has been rather more cagey about its plans.

The Mercedes-Benz M Class fits into the popular sports utility sector

Paolo Cantarella, chief executive of Fiat

One hundred years young and at the dawn of the new millennium, the challenges facing the motor industry are many, but clear. The process of true globalisation must continue, for the customers of the new worlds require it and we must do it in order to guarantee our competitiveness. However, we must be acutely aware that industrial and social demands go hand in hand. This process, together with investments in new models and technology, which must be renewed at a quicker pace in order to satisfy consumer demands and combat increasing competition, means that trade and economic rules must be the same for everyone. Free, but fair, trade. The difficulties we have seen in Asia and Latin America should be seen as temporary difficulties – part of the growing pains of any expanding economy. For the motor industry, always a long-term planner, our commitments, at least, in these areas will remain largely in place. In Europe the new car market in 1998 should expand by around 2 to 3 per cent.

THE ENVIRONMENT • by Leyla Boulton

Opportunity and threat

Japan has given the world a lead in tackling problems of climate change

Climate change, followed by waste, will top the environmental headaches for business this year. They represent both an opportunity and a threat.

The world's first legally-binding treaty to curb "greenhouse gas" emissions linked to dangerous climate change was agreed in Kyoto on December 11. This requires cuts in fossil fuel consumption by the US, Japan and the European Union, but its impact will vary from industry to industry.

While some will be clear winners other businesses will have to adjust in order to thrive. Nowhere are these differences better illustrated than in Japan.

Hirofumi Tezuka, general manager of the solar division of Kyocera, a ceramics-to-semiconductor conglomerate, expects a powerful boost in demand for solar products from the accord struck in his home town last month.

But Isao Iwabuchi, environmental manager of Nippon Steel, Japan's biggest steelmaker, acknowledges that his industry will need to change in order to thrive in a post-Kyoto regime.

Japan has already done more than most countries to tackle climate change in practical terms. Its actions are likely to be imitated by the US and the EU.

Kyocera enjoys the world's most generous government subsidies to encourage demand for solar power, which is seen as both a means of avoiding "greenhouse gas" emissions and reducing Japan's dependence on imported oil.

For the current financial year, the Japanese government has provided Y11bn to subsidise the installation of solar panels – which generate electricity from sunlight – on the roofs of new houses. Another Y14bn is has been made available in subsidies to encourageindustry to take up solar alternatives, and for research and development.

Just before the Kyoto conference the US unveiled plans to instal solar roofs on government buildings and to spend $5bn on tax breaks to promote renewable energy sources. The European Union is considering a programme to promote renewables across the 15-nation bloc.

In the meantime, Mr Tezuka smiles when asked whether he thinks his company is getting a head start against foreign rivals such as BP Solar, which does not benefit from UK government subsidies. "I think so," he says.

In contrast, companies such as Nippon Steel, representing one of the most energy-intensive industries in the world, will have to work hard to turn the challenge of climate change into an opportunity.

Japanese energy conservation efforts dating from the first Middle East oil crisis in 1973 have already helped make Japanese steelmakers more energy efficient than most of their international competitors.

As head of the carbon dioxide committee set up by Keidanren, the Japanese business federation, Mr Iwabuchi is acutely aware of the challenges of further carbon dioxide reductions.

He says that "maybe in the next century carbon dioxide is going to be the biggest problem" for the steel industry. But he also sees companies' ability to produce more goods while using fewer natural resources as key to their future competitiveness.

The notion that companies stand to gain a competitive advantage from eco-efficiency is also true of waste, the other main environmental challenge of 1998.

Governments are likely to continue to increase pressure on companies to minimise the waste generated by both their products and production processes. This trend is particularly advanced in the EU.

An EU directive requiring industry to recycle or otherwise recover half its packaging waste by 2001 begins to bite this year. Having registered with a collective recycling scheme, companies are now expected to provide data to governments on how much waste they generate so their obligations under the new law are correctly assessed.

Later this year, European environment ministers will decide whether to press ahead with plans for mandatory recycling of both cars and electronic goods from computers to televisions. Such obligations would extend not just to European companies but to the many US and Japanese multinationals which sell photocopiers and cars into the EU.

PHARMACEUTICALS • by Clive Cookson

Another golden year in prospect

A change of heart on healthcare by governments is helping to fuel strong demand

The pharmaceutical industry is looking forward to another golden year in 1998. Most companies expect strong overall growth in sales and profits, fuelled by double-digit expansion in the US market.

At the same time, there is increasing excitement about a new wave of innovative drugs in the research pipeline as scientists apply new genetic and chemical techniques to pharmaceutical discovery and development.

There may be some setbacks as governments in Europe and Asia attempt to strengthen drug price control mechanisms but on the whole, as Richard Markham, American chief executive of Germany's Hoechst Marion Roussel (HMR), puts it: "It's going to be a fantastic year for the industry."

Analysts expect the global market to keep growing at about its current rate of 7 per cent during 1998.

As Mr Markham notes, it is just five years since one respected team of investment analysts put out a fat report entitled *The Pharmaceutical Industry of the Future – A Black Hole.*

In the early 1990s, many people forecast that a combination of healthcare reform programmes and ferocious price competition between similar drugs would drive down profits throughout the industry, to a point at which many companies would be forced to make big cuts in research and development – the lifeblood of their future. In response to such fears, shares in pharmaceutical companies were then trading at a price/earnings discount to the market.

As it turned out, the Clinton administration and Democrats in Congress failed to impose a damaging reform programme in the US. European governments took a more relaxed attitude to pharmaceutical pricing than the pessimists had expected, and several companies managed to cut costs substantially through mergers and acquisitions.

The outcome has been a sequence of four consecutive years in which the pharmaceutical sector has outperformed the market. It is now back to its traditional P/E premium.

Leading pharmaceuticals companies (1998 forecasts, US$bn)

	Country	Pharma sales	Group sales
Merck	US	15.971	27.439
Glaxo Wellcome	UK	14.010	14.010
Novartis	Switzerland	13.433	23.685
Bristol Myers Squibb	US	12.220	18.341
Pfizer	US	10.689	13.682
Roche	Switzerland	10.553	18.784
American Home Products	US	10.549	14.657
Johnson & Johnson	US	8.925	25.365
SmithKline Beecham	UK	8.688	14.100
Hoechst	Switzerland	8.173	30.072

Figures include prescription and OTC drugs, exclude animal health and diagnostics
Source: NatWest Markets

"As a sector, the pharma industry has delivered in spades," says Mark Becker, London-based pharmaceutical analyst for J.P. Morgan Securities. On average, companies have shown earnings growth of 13 per cent over the past five years and are forecasting growth of 13 per cent over the next five.

One reason for the improved outlook, Mr Markham says, is that companies are winning the battle to convince governments that drugs, far from being a drain on healthcare resources, help to save money. The industry's growing band of pharmaco-economists is producing increasingly sophisticated analyses to show that innovative drugs lead to savings far greater than their own costs, for example by reducing substantially the time that patients need to spend in hospital.

"It is becoming increasingly clear that the pharmaceutical industry will be the saviour in the fight to cut healthcare costs," Mr Markham says.

The other reason for optimism is the way companies are increasing the productivity of their R&D operations (which typically consume about 15 per cent of total expenditure) by improved management and new technology. Large companies such as HMR, which have managed to launch drugs at an average rate of about one a year, are now promising two or three important new products a year. Glaxo Wellcome put 18 new chemical entities into the first "exploratory" stage of development in 1997, says James Niedel, R&D director, compared with just six by Glaxo and Wellcome before their merger in 1994.

"I'm very excited about the R&D revolution," says Kevin Wilson, European pharmaceutical analyst at Salomon Smith Barney. "I think it will be very bullish for some parts of the industry."

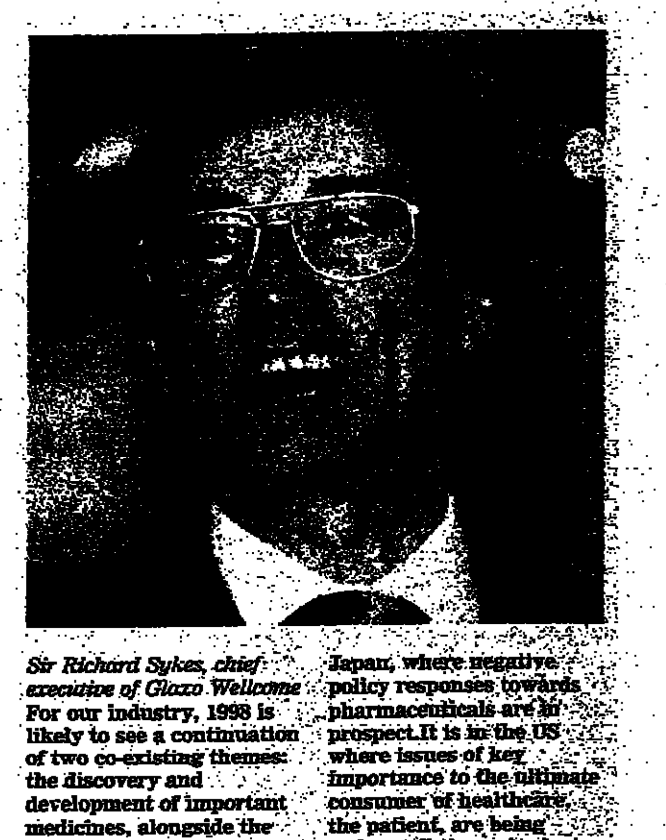
One buzzword in the industry, which Mr Wilson predicts will become increasingly familiar to investors during 1998, is bioinformatics: the use of information technology to make sense of the vast volumes of genetic and biological data pouring out of research laboratories. Companies vary greatly in the extent to which they have invested in bioinformatics; SmithKline Beecham has perhaps the highest profile in this field.

Another likely buzzword for the future is pharmacogenomics: using genetic analysis of patients to prescribe the drugs most beneficial for their disease.

Although the pressure on pharmaceutical companies to merge has relaxed as their financial outlook has grown brighter, the industry is expecting further activity in mergers and acquisitions over the next two or three years. Consolidation may no longer be a matter of life or death, but companies are still attracted by the large cost savings available from a well managed merger.

Some names feature in takeover speculation more frequently than others. Global companies that are in the second tier by size, such as the UK's Zeneca, are often seen as targets. Any of the giants seeking to increase market share is a potential predator, though Switzerland's Roche may be particularly hungry now that Ciba and Sandoz have combined into Novartis.

Predicting takeovers is as much a matter of guesses and rumours in the pharmaceutical industry as in any other. But, with the largest companies holding less than a 6 per cent market share, the biggest surprise would be if there was no corporate consolidation this year.



Sir Richard Sykes, chief executive of Glaxo Wellcome
For our industry, 1998 is likely to see a continuation of two co-existing themes: the discovery and development of important medicines, alongside the challenges of financing society's demands for improved healthcare. In Europe, the important dialogue sponsored by Martin Bangemann [the EU industry commissioner] has made progress which can be built upon in 1998. This contrasts with Japan, where negative policy responses towards pharmaceuticals are in prospect. It is in the US where issues of key importance to the ultimate consumer of healthcare, the patient, are being addressed, through improved information provided directly to patients and focus on the *quality* of care and not just its costs. I look forward to a greater role for *patients* on the agenda in other areas of the world in 1998.

TELECOMMUNICATIONS • by Alan Cane

Competition gets tougher

Liberalisation, globalisation and advances in technology create more rivalry

It would take the gift of second sight and more to predict the course of the telecommunications industry over the next few years. One thing, however, is certain: the industry in 2008 will bear little resemblance to the telecoms business of today.

Most, if not all, of the world's national carriers will have been fully privatised. By 2000, for example, it is likely that all Latin America's leading operators will be in private hands. Competition will be open and controlled by global regulation. The telephone network will carry more minutes of data than voice. And it is possible that ownership of the industry will have drifted away from the traditional operators towards new carriers with internet capabilities, such as WorldCom, of the US, and to the computer and media companies – Microsoft, for example.

All this will come about because of advances in technology, the globalisation of business and the liberalisation of markets. All three are contributing to a profound increase in competition in an industry which for most of its existence has enjoyed co-operation rather than rivalry.

This year is likely to prove pivotal. January 1 was the date set by the World Trade Organisation for the liberalisation of telecoms markets throughout much of the world. It was also the date on which the European Union's leading economies had agreed to allow full competition in voice and data services.

The demand for telecoms services will grow strongly, driven by an increase in data transmission chiefly associated with the internet. But costs are falling and carriers are peering anxiously into a future in which the only certainties are tougher competition and drastically lower margins.

An example is interconnection rates, the price an operator charges rival operators to connect to its network. These are lower in the UK, where there has been full competition for some five years, than anywhere else in Europe. In New Zealand, where a liberal market has been accompanied by an absence of regulation, interconnection charges are five times the UK rate on a comparable basis.

Leading telecommunications operators

	Country	1996 telecom revenue (US$bn)
NTT*	Japan	71.143
AT&T	US	52.184
Deutsche Telekom	Germany	40.584
France Télécom	France	28.891
BT*	UK	24.493
GTE	US	21.339
Telecom Italia	Italy	19.192
BellSouth	US	19.040
MCI	US	18.494
Telefónica	Spain	15.281

** 12 months to March 31 1997*
Source: International Telecommunication Union

For manufacturers, on the other hand, the possibilities of selling advanced equipment to the rash of new operators should more than make up for the way technological advances are cutting the cost of electronic equipment.

Northern Telecom, the Canadian manufacturer, for example, won a $60m contract last month, from NetSystem International, a new telecoms group based in Oslo, Norway, which aims to become Europe's leading "virtual" network operator, providing intelligent systems to glue together other carriers' networks, offering customers a single point for fixed and mobile services.

The single most important development in the past few months, however, has been the emergence of internet telephony. For more than a year the technology has been available to make commercial quality international telephone calls over the internet and, therefore, at a fraction of the conventional price.

This has been a remarkable technical feat. Data is sent over the internet in discrete blocks, or "packets", which are not best suited to voice conversations.

There will inevitably be some effect on operators' revenues. Philips Tarifica, the consultancy, estimates Deutsche Telekom's revenues will be cut by at least $105m in 2001 because of internet telephony. In the US, Action Information Services calculates that voice and fax over the internet will cost North American operators $8bn in revenues over the next four years.

The internet apart, the cost of long-distance calls is set to fall as a consequence of competition and technical developments such as call-back and re-file services. These latter services essentially make it seem that a call from a country where call charges are high has it origin in a country where charges are low.

Internet telephony and call-back spell the end of the "accounting rate" system where international operators pay each other inflated amounts to carry each others' calls.

The cost of local and long-distance calls will continue to fall as competition develops in countries where hitherto there had been none. But the speed at which it develops should not be overestimated. The incumbent operators will fight back, and they have most of the advantages.

Regulation will be key. Analysts point out that European fixed-wire operators fall into two groups: the north Europeans include BT, Deutsche Telekom and KPN of the Netherlands, all mature, relatively efficient operators facing tough competition and tight regulation. Analysts expect earnings growth of between 5 per cent and 11 per cent a year for these companies.

The south Europeans include Telecom Italia, Telefónica and Portugal Telecom, where competition is expected to develop slowly and regulation will be less rigorous. Earnings growth for these companies is expected to be around the 10 to 19 per cent a year mark. Good for investors, but a burden for businesses in the region who will continue to pay over the odds for their communications.

Mobile telephony will continue to grow strongly, driven by falling prices and a growing global understanding of the value of mobile communications. The industry is maturing rapidly, finding its way around the clumsy credit-checking, handset subsidies and high charges which have been a primary cause of "churn" – subscribers leaving or being excluded from the network. Pre-paid services and realistically priced handsets are bringing new subscribers onto the networks in their millions.

Spoilt for choice…but for the media industry, and particularly the broadcasting sector, there could be an uncomfortable period ahead

MEDIA • by John Gapper

In shadow of uncertainty

One of the main challenges now is to create content to fill expanding capacity

After a period of rapid growth in the early 1990s, the global media industry is investing for an era in which competition will be more intense and rewards more uncertain. That is now reflected in wilting share valuations for companies that are embarking – some willingly and some through lack of choice – on the digital adventure.

This phenomenon has been particularly marked in Europe, where media companies have performed abysmally against stock market indices. Media companies that were prized for their strong cashflow and growth prospects in the past few years have seen their value shrink as investors realise the scale of risks that they are now facing.

For an industry used to strict regulation in many markets, the media sector is now facing huge uncertainty. Broadcasters are unsure whether they can attract subscribers and advertising revenue to cover the escalating cost of digital service, while the divide among winners and losers in information fields is ever more pronounced.

The over-arching theme in global broadcasting is the expansion of capacity in the switch from analogue to digital broadcast. This is transforming the number of channels in most countries outside the US from a handful to a few hundred, and allowing far greater choice in what viewers want to watch, and when they do so.

For information providers, the challenge is less to create content to fill the ever-expanding capacity than transferring existing information into different forms. The most successful global information groups, such as the Dutch publishers Elsevier and Wolters Kluwer, have had to switch information to online databases.

Changes in technology in all fields are leading to a re-evaluation of the balance of power between the owners of content and distribution. As all channels of communication expand, greater power is being placed in the hands of content owners, and is increasingly passing to talented individuals who entertain or inform others.

The geographical power of particular economies is also becoming less certain. US entertainment groups such as Time Warner and Disney remain extremely strong in filmed entertainment. Yet US companies face tough challengers in financial information and in other specialist information fields the US is surprisingly weak.

Broadcasting is the arena facing most rapid change, with the strength of networks being challenged strongly for the first time outside the US by pay-television providers. At the same time, US digital satellite broadcasters are competing strongly, and cable groups are pondering a switch to the next generation of set-top boxes.

One of the most contentious issues to be addressed in the coming year is whether the attempt by Microsoft to create a television operating platform with a market strength similar to that of Windows 95 in the personal computer market will work. Microsoft has made a number of moves to reinforce its second front in television.

Among these have been the purchase of its Web TV subsidiary, and the marketing of its Windows CE application as operating software for set-top boxes. Cable groups such as Tele-Communications, of Denver, will shortly place multi-billion dollar orders for an array of set-top boxes capable of handling digital channels.

The massive capacity of digital technology, which allows broadcasters to squeeze many more channels into a set of frequencies, has sparked a debate over the gatekeeper applications such as electronic programme guides. These determine how easy it is for a viewer to find a particular channel among the array on offer.

Yet in many markets the depth of investors pockets may determine as much as the niceties of technology. Even the US market is unlikely to be able to bear four digital satellite providers indefinitely, as Rupert Murdoch's uncharacteristic retreat from battle during 1997 by abandoning a joint venture with Echostar indicates.

There has already been consolidation in European satellite television through the agreement between KirchGroup and Bertelsmann in Germany to share assets. Yet Canal Plus and British Sky Broadcasting, which have led pay-TV in France and the UK, face an unaccustomed degree of competition from others.

Leading media companies

	Country	1996 sales (US$bn)
Viacom	US	12.1
Bertelsmann	Germany	12.0
News Corp*	Australia	10.4
Time Warner	US	10.1
Thomson Group	Canada	7.6
Tele-Comm	US	6.8
Reed Elsevier	The Netherlands/UK	5.4
Reuters	UK	4.7
Gannett	US	4.4
Comcast	US	4.0

** year to June 1997*
Sources: Datastream/ICV and S&P

At the same time, European regulators are displaying more inclination to impose a blueprint for the digital future. The European Commission's competition directorate has displayed an interest in digital services across the continent, and provoked complaints that it is in danger of stifling innovation in what is already a risky new market.

For traditional free-to-air networks, the full onset of pay-television is likely to lead to stronger challenges for advertisers' money. Yet the US networks have shown that they can command higher premiums for delivering mass audiences than in the past, as the mass audience becomes scarcer amid proliferating channels.

Music groups do not face the same difficulties. Instead, the large music labels have the difficulty of slow growth in demand following the rapid re-stocking by consumers that came with the introduction of compact discs. Goldman Sachs, the US investment bank, is predicting growth in sales volume of just 4 per cent for 1998.

In information markets, it will be a crucial year for the European groups that have been attempting to reinforce their strength in information publishing. If the merger of the Dutch publishing groups Elsevier and Wolters Kluwer and the British company Reed is allowed it will create the world's strongest information group.

Reed Elsevier-Wolters Kluwer would have extremely strong positions in legal, tax and medical publishing in both the US and Europe. Not only is there no US company with similar strength in specialist publishing, but the US market in financial information is also in flux, with several established providers undergoing change.

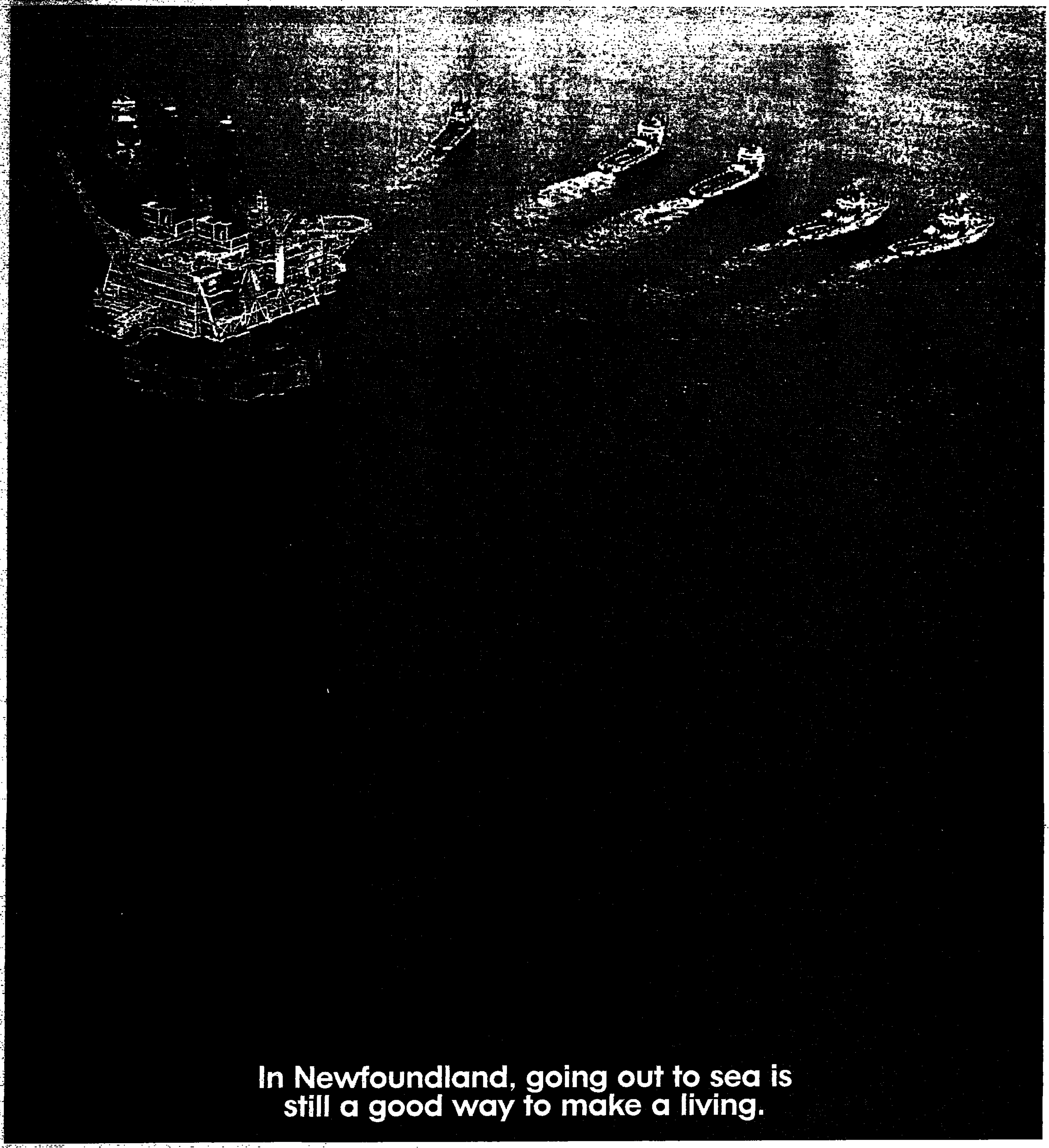
Dow Jones, publisher of the Wall Street Journal, has managed to expand the newspaper into Europe and Asia. However, the family-controlled group may sell its financial data subsidiary Dow Jones Markets. Primark, the Massachusetts-based company, has also put up for sale its financial information division.

Yet the direction of this market is unclear. Reuters, the strongest European group, has displayed little appetite for aggressive acquisitions having just handed £1.5bn back to shareholders. The fastest-growing US participant, Bloomberg, is still privately-held, and to date has grown organically rather than by buying other providers.

This range of uncertainties means the global media industry is likely to undergo an uncomfortable period in the coming year. Even if the broadcasting move into digital works as planned, there are too many competitors to survive unscathed in the long-term, while the market in financial information in particular is highly uncertain.

Yet the breaking down of traditional technology constraints mean that new players have a better chance of competing than in the past. Stock market valuations may reflect in an accurate way the probability that not every participant will invest wisely, but there are opportunities for those that can stand out from the crowd.

هكذا من الأصل



Off the Canadian Maritimes, beneath waters southeast of Newfoundland and Nova Scotia, lie three billion barrels of oil and trillions of cubic feet of natural gas. Pictured above is the biggest thing ever towed to sea—the Hibernia oil platform. Heavier than six modern aircraft carriers, it took seven years and 7,000 people to build, and it's now at work exceeding all expectations. Mobil is the largest partner in a group that will operate Hibernia for at least 20 years. Environmentally, it may be the most carefully executed oil project ever. Economically, it marks the start of a new era for Atlantic Canada. Mobil is active in other Maritimes fields, too, whose reserves will boost world energy supplies. Without partnership, however, Hibernia could not have happened. The Canadian government, the people of Newfoundland and our five partners are all to be congratulated for their foresight and for a job well done. To learn more, visit www.mobil.com.

Mobil The energy to make a difference.

There are few industries untouched by IT - but the financial services sector is easily the biggest investor in technology

INFORMATION TECHNOLOGY • by Stefan Wagstyl

IT is reaching out to the farthest corners

A company's location is now more likely to be determined by skill bargains

Among the safest forecasts which can be made about the business outlook is that information technology will spread further and deeper into everyday working life.

IT companies already account for more than 10 per cent of output in the US, and approaching 10 per cent in Europe and Japan. But the real measure of the impact of IT is in its effects on businesses and processes which once had little to do with computing.

From the control room of a chemical works to the small import-export office, IT is changing the business world.

Frances Cairncross puts improvements in communications at the centre of these changes in her recent book, *The Death of Distance*. In a 30-point summary, she claims that faster and cheaper communications will do everything from increasing economic efficiency to promoting global peace.

Among her more intriguing forecasts is that IT will make companies and people more honest. "Since it will be easier to check whether people and companies deliver what they have promised, many services will become more reliable and people will be more likely to trust each other to keep their word," she says.

Ms Cairncross argues that communications are already helping to enhance global markets by reducing the importance of distance and of geographic location. "Companies will locate any screen-based activity anywhere on Earth, wherever they can find the best bargain of skills and productivity."

In fact, this rule applies increasingly not just to screen-based activities, but to all business activities which do not require face-to-face contact with customers.

With the help of IT, product development, production and marketing can be carried out in different countries and tied together to generate profit. A skirt designed in Italy and made in India can be sold in Japan. Moreover, IT means that the different stages of the commercial process can increasingly be carried out outside the company as well as inside.

IT outsourcing deals, which started life as a cheap way of data processing, have become ever more elaborate, with companies bringing IT-related partners deeper into their own organisations. It is already commonplace for management consultancies to win contracts for providing everything from computer hardware and software to advising on the organisational changes which will be required to make the best use of the newly-installed technology.

Such contracts often envisage that the client and his or her consultant will share the rewards of the work – with a portion of the payment to the consultant being based on the savings and other benefits arising from the changes which are made. Sometimes the partners also agree to share the lessons learnt – the client company can transfer the improvements to other departments while the consultant is also free to use them. Some chief executives balk at this idea.

Across the globe, there are many cases of very centralised companies which have done very well in world markets, building networks of affiliates in many countries. They are among the front-runners in the use of technology but do not expect corporations to go fuzzy at the edges. Toyota Motor, the Japanese carmaker, is an example.

The advance of IT does not just bring organisational change; it also alters the nature of the products and services which are produced.

Percy Barnevik, chairman of ABB, the Swiss-Swedish engineering group, said in a recent speech: "All companies are IT companies... electronic intelligence is now being built into everything. The competitive edge of a train or a power plant is increasingly a matter of process control, self-diagnostics, optimisation devices, man-machine communication – all IT-based.

"In a steel rolling mill, almost half the value is in process control and electronics. If you add documentation, training etc, you find that maybe 25 per cent of the total price is conventional hardware and what you supply is mainly software and know-how."

Already there are manufacturers who themselves make nothing. Keyence, a Japanese electronics company, carries out its own research and development work and handles marketing. But all the manufacturing is carried out by sub-contractors. British Airways has denied that it wants to make itself into a "virtual airline", in which the physical business of flying aircraft would be sub-contracted. But it is in the process of spinning off or reducing other services which were once considered central to an airline's business, such as vehicle maintenance and catering.

The changes wrought by IT put big pressures on individuals. Not everyone will assess correctly the opportunities which are being created. If some companies make a spectacular success of the IT revolution, others will make a dismal failure. Some individuals will seize the chance to advance their careers and others will lose their jobs through making the wrong choices or through sheer bad luck.

These considerations put a premium on training. Companies which train their staff well are more likely to have the resources to respond to changes when they occur.

Leading computer, office equipment companies

	Country	Sales (US$bn)
IBM	US	75.9[1]
Fujitsu	Japan	40.6[2]
Hewlett-Packard	US	38.4[3]
Canon	Japan	22.7[1]
Compaq	US	18.1[1]
Xerox	US	17.4[1]
Digital	US	13.0[3]
Ricoh	Japan	11.7[2]
Microsoft	US	11.4[3]
Apple	US	7.1[4]

[1] year to December 1996; [2] year to March 1997; [3] year to June 1997; [4] year to September 1997

Sources: Datastream/ICV and S&P

IT COMPANIES • by Louise Kehoe

Asia threat to the boom

US chipmakers fear their Korean competitors will add to worldwide oversupply

The information technology boom of the past two years, which has been driven by the widespread adoption of internetworking technology, is set to continue through to the end of the decade and beyond, according to industry forecasts.

But economic turmoil in Asia, which has hit the earnings of some of the most prominent US high-technology companies in recent weeks, is casting doubts on the outlook for technology industries, at least in the short term.

The Asia-Pacific region, including Japan, has been a high-growth market for many high-tech products over the past five years. Companies such as Oracle, a leading supplier of software to large businesses, have become accustomed to seeing their sales in the region increase by at least 60 per cent a year, a rate that far outstripped Europe or the Americas.

Now Asian currency crises threaten to dampen revenue growth. Oracle, for example, is not counting on any growth in Asia-Pacific markets over the next few quarters, says Ray Lane, Oracle's president. Several customers in the region have put spending on hold, although some large software installations are going ahead, he adds.

The impact of Asian economic problems in the high-tech sector may vary greatly by industry segment and geography. US companies which count their revenues in dollars are feeling the effects of falling Asian currencies more acutely than their counterparts in Europe, for example.

The most vulnerable high-technology companies are providers of capital equipment; for example, the semiconductor production equipment industry is taking a hard hit. Applied Materials, a Silicon Valley company that is the world leader in chipmaking equipment, saw its share price drop by more than 40 per cent in the four months to mid-December. The company received 42 per cent of its revenues from Asia – primarily Japan and South Korea – in the last fiscal year.

Robert Stern, an analyst at Merrill Lynch who follows the semiconductor equipment industry, downgraded nine companies, including Applied Materials, last month. He lowered his forecast for market growth from a range of 10 to 20 per cent to a range of 5 to 10 per cent.

In other sectors, the impact of the Asian economic crisis is expected to be less severe. For International Business Machines and Hewlett-Packard, the two biggest US computer companies, Asia-Pacific typically represents some 15 to 20 per cent of annual sales. Thus the effects of slowing growth in the region are not expected to be severe.

PCs continue to roll off the production line, but there are worries in the semiconductor market

However, in segments of the high-tech industry where Asian producers play a big role in world markets, the picture could be quite different.

US chipmakers fear that South Korean memory chip manufacturers, for example, will take advantage of aid from the International Monetary Fund to continue to expand production and exacerbate a serious worldwide oversupply that has driven prices of memory chips down by at least 70 per cent over the past year.

IMF aid should be accompanied by restructuring plans that shift the South Korean industry away from government supported expansion toward market-driven growth, the US chipmakers maintain. "All the troubled economies in Asia cannot export their way out of their current financial problems," says George Scalise, president of the Semiconductor Industry Association, a US trade group.

Similarly, US producers of computer disk drives face mounting competition from Asian producers whose costs – measured in dollars – have dropped sharply.

Yet for US makers of personal computers, who can take advantage of the lower cost of components built in Asia, falling currencies in the region may be good news. Already, prices of "entry-level" PCs are falling well below $1,000 in the US, and this is stimulating domestic market growth.

A survey published last month by Dataquest, a market research group, showed that 10.2 per cent of US households planned to buy a PC over the next six months. This is an increase of 1.5m households over the same time last year and is driven largely by falling prices, the analysts said.

Yet while lower prices may stimulate the PC market in the US, economic problems could create a prolonged period of weak sales in several Asian countries, including Japan, according to analysts at UBS Securities who predict this will lead to slower growth in the worldwide PC market next year.

In general, however, the growth of Asian IT markets over the past few years has not been driven by strong economies. Rather, sales have stimulated by Asian IT users rushing to catch up with computing trends well established in the west.

Japanese industries, slower to shift from mainframe computers to the "client-server" model of computing based on networks of desktop PCs, have been in catch-up mode and spending heavily.

Now, Japanese companies are in the process of adapting to internet technologies, a little later than in North America and Europe, thus providing strong markets for internet equipment and software suppliers.

Whether the rush to keep pace with rapidly-changing technology will override economic uncertainties in Asia remains to be seen. US technology companies take comfort, however, in the belief that Asian companies with global operations will not risk falling behind their foreign competitors in making use of internetworking technologies that link remote operations and provide online communications with customers and suppliers.

While the high-tech growth markets of the past few years may be slowing, new markets with even greater potential are on the horizon. It was not by chance that when "Asia paranoia" struck the US stock market last month, Bill Gates, the chairman and chief executive of Microsoft, was visiting Beijing.

China, many US high-tech companies believe, will become the next big engine of growth for export sales. South America, and in particular Brazil, also represents a strong emerging market for IT suppliers that could help to compensate for slowing growth in Asia.

There are several technology trends that point toward robust growth in the established high-tech markets of North America and Europe over the coming months. These include the growth of the internet, which is still attracting new users at a rapid pace and forcing access providers to upgrade their networks to keep pace with demand.

The widespread installation of corporate intranets – internal networks based on internet technology – as well as extranets that link companies to their suppliers and customers, have become the primary engine of growth in the IT industry, according to industry analysts.

This has been accompanied by broad adoption of the Microsoft Windows NT operating system which is fast becoming as much a standard for network servers as is Windows 95 on the desktop PC.

The emergence of reliable voice recognition technology that will enable users to talk to their desktop computers is expected further to boost demand in the next year or two. Hand-held computers are also coming into their own, after several years of mediocre sales and creating a potentially huge new market.

The biggest prize, however, is the prospect of creating a vast new "mainstream" consumer market for IT products that combine television with the interactive information resources of the internet. If the world's leading chipmakers, computer manufacturers and software developers succeed in bringing their technology to the masses, the boom of the mid-1990s may prove to have been just the beginning of a period of even more rapid growth.

Leading electronics, equipment companies

	Country	Sales (US$bn)
GEC	US	78.5[2]
Hitachi	Japan	75.7[3]
Matsushita	Japan	68.1[3]
Siemens	Germany	63.7[1]
Sony	Japan	50.3[3]
Toshiba	Japan	49.5[3]
NEC	Japan	43.9[3]
Philips	The Netherlands	41.0[2]
ABB	Switzerland	34.6[2]
Mitsubishi	Japan	33.1[3]

[1] year to September 1996; [2] year to December 1996; [3] year to March 1997

Sources: Datastream/ICV and S&P

CHEMICALS • by Michael Peel

East and west go separate ways

David Wilbraham, chief executive officer of Hickson International

Britain's chemical industry is a substantial contributor to the nation's wealth, with the great majority of chemical production exported. The whole chemical sector is undergoing a period of change. Areas such as petrochemicals, plastics and fibres that provided growth in the past are now becoming commodities and face consolidation. The focus has switched to specialty chemicals with more added value and product differentiation.

The name of the game is to be number one or two in a defined niche. Consequently, as companies reposition themselves, the acquisitions, divestments and spin-offs that characterised 1997 are likely to continue. The other major factor is currency. The appreciation of sterling by 30 per cent against the D-Mark in less than a year equates to a 30 per cent price reduction on exports to the European Union. Such instability makes planning difficult and tests the industry's managers.

Europe and US are having to concede markets to low-cost manufacturers

An east-west divide is opening up in the chemicals industry as low-cost manufacturers in south-east Asia prepare to take a dominant share of the global commodity chemicals market.

Many European producers have decided they cannot compete on production costs and have spun off or sold their industrial businesses. They are concentrating instead on specialty chemicals.

The changing shape of the industry reflects the different focuses of eastern and western manufacturing.

Operations to produce commodity chemicals such as titanium dioxide and polyethylene tend to be relatively straightforward to set up and run. Consequently, the businesses are low-margin and prices are uniform.

On the other hand, the manufacture of specialty products requires technical expertise. This makes it more difficult for new entrants to the sector to undercut established companies on production costs.

This is one of the reasons why companies in Asia are targeting commodity chemicals. They also have greater freedom than their western counterparts to introduce significant new capacity as they are not under the same pressure to deliver short-term profits for shareholders.

A great deal of industrial chemicals capacity is also coming on stream in the US, where many companies have reinvested profits earned in 1994 and 1995 in new plants. Peter Blair, chemicals analyst for Salomon Smith Barney, says US ethylene capacity increased by 9 per cent in the final quarter of last year.

Worldwide increases in manufacturing capability have led to oversupply of commodities such as ethylene, polyethylene, PET, styrene and a wide range of chemical fibres. Charles Brown, chemicals analyst for Goldman Sachs, says: "There are very few products that are booming and quite a lot that are depressed, and that is consistent with there being a reasonable amount of capacity about."

Other events in Asia last year adversely affected western chemicals companies. The recent slowing of economic growth in Asia made it more difficult for European and US companies to export. "The areas [of south-east Asia] are becoming self-sufficient in terms of commodity chemicals," says Mr Blair.

"The Europeans are net exporters so you will start to see import pressures [into Europe] and pressures on prices in terms of plastics and chemical fibres."

In this context, it is hardly surprising that European manufacturers have been exiting in droves from commodity chemicals.

ICI is the most dramatic example. It bought Unilever's specialty chemicals businesses last year for £4.9bn, and sold its titanium dioxide and polyester businesses to DuPont, of the US, for $3bn. The UK group is also looking to dispose of its fertilisers, explosives, petrochemicals and halochemicals businesses.

Other European groups have looked to form companies devoted to the manufacture of specialty chemicals. Clariant was created by merging parts of Sandoz, of Switzerland, with parts of the German group Hoechst. Ciba Specialty Chemicals was spun out of Novartis, the Swiss company.

The financial markets have been kind to those who have decided to specialise. Again, ICI is a striking example: its share price rose from 688p to a high of more than 1,100p recently on the back of its acquisition and divestment programme.

Spectacular rises of this type seem to be based on pessimism about the future of commodity chemicals production in the west rather than a conviction that specialty chemicals will generate large profits in the future. "I think it's a bit of a concern that Europe is a structurally high-cost producer of several commodity chemicals," says Mr Blair.

"In Europe, in the past, companies have struggled to make a good return on investment in commodity chemicals, and I think in the future that will get tougher because of the emergence of large export areas like the Middle East, Canada and Venezuela."

Competition of this sort has already forced many western companies to alter radically their commodity operations. Mr Brown says: "In dyestuffs we have seen a considerable contraction, with the number of producers diminishing and quite a lot of capacity being taken out, and a number of producers being prepared to outsource and even buy products in India and upgrade them."

Many analysts think companies which have retained substantial interests in the commodities sector – such as BASF (Germany), Solvay (Belgium), and DSM (the Netherlands) – will soon decide to abandon industrial chemicals. "They will try to move towards more value-added areas of chemistry," says Jeremy Chantry, chemicals analyst for Credit Lyonnais Laing.

Global demand for specialty chemicals was exceptional last year. Volumes grew by about 7 per cent as many companies built up inventories. European speciality chemicals companies were better able to export into the US because the dollar was strong.

Volumes are predicted to grow by a much more modest 3 to 4 per cent this year. A weakening of the dollar could affect US demand.

Competition from south-east Asia could also assume greater importance. Companies in countries such as India and China are allying technical knowledge to low-cost production to make speciality items such as pharmaceutical intermediates and finished drugs. The products are low-bulk and cheap to ship to export markets.

The future of the new-look chemicals companies in the west could depend in part on their ability to adapt to this competition. "This time last year I thought we would be in a far worse position than we are, especially in plastics," says Mr Blair.

"But, in fact, the margins have continued to increase, and the supply-demand situation has been strong. It's just a matter of how long they can sustain that."

Leading chemicals companies

	Country	1996 sales (US$bn)
Hoechst	Germany	33.953
BASF	Germany	32.517
Bayer	Germany	32.405
DuPont	US	23.600
ICI	UK	17.179
Rhone-Poulenc	France	16.794
Mitsubishi Chemical	Japan	15.923
Akzo Nobel	The Netherlands	13.277
Asahi Chemical	Japan	11.872
Fuji Photo Film	Japan	11.509

Source: Goldman Sachs Equity Research

Who says major competitors can never agree?

Within the next two weeks, the future of personal mobile telecommunications will be decided by you, the representatives of the telecommunications industry.

To support this critical issue, the world's leading mobile communications companies have joined forces to form *The UMTS Alliance* and have agreed upon the solution for the next generation Universal Mobile Telecommunications System - UMTS.

Our TD-CDMA solution differs from other proposals in that *The UMTS Alliance* has focused on meeting the operators' needs for minimising the technical, financial and implementation risks by building upon the already well established GSM technology and system investments.

UMTS will provide ubiquitous multimedia services with narrow and broadband data, graphics, pictures and video in addition to standard mobile voice services.

Smooth migration to UMTS, spectrum re-use, forward and backward compatibility with GSM, cost effective and early multimode terminal availability, re-use for existing systems, new services and early access to the new generation UMTS standard were all critical success factors in selecting the TD-CDMA solution.

VOTE TD-CDMA

If these are also your critical success factors, then you should agree with us and choose TD-CDMA.

THE UMTS ALLIANCE

http://www.umts-alliance.com

ALCATEL — Alain Bravo, President, Mobile Communication Division

BOSCH TELECOM — Ernst-E. Folgmann, Member of the Board of Management

Italtel — Decio Ongaro, Senior Vice President, Mobile Radio Business Unit

MOTOROLA — Adrian Nemcek, Corporate Vice President and General Manager, European Cellular Infrastructure Group

NORTEL NORTHERN TELECOM — Pascal Debon, Group Vice President and General Manager, GSM Wireless Networks

SIEMENS — Lothar Pauly, President, Mobile Network Division

SONY — Georges Gérard, Senior Manager, Sony Europe GmbH

8 GLOBAL BUSINESS OUTLOOK

FOOD AND DRINK • by John Willman

Squeeze is on the smaller players

Tumbling trade barriers allow the biggest groups to become even stronger

It is a rough, tough world when a food group with global aspirations says it has to back out of a dominant position in the world's seventh-largest market for one of its core products.

Yet United Biscuits felt it had to do just that at the start of this month when it completed the sale of its Australian snacks operation for $440m to Frito-Lay, PepsiCo's food division.

UB had more than 50 per cent of the market in Australia, while the US group was a distant number two. But with annual snack sales globally at just £876m, the UK group found itself outgunned by a competitor with sales of almost $10bn a year.

Frito-Lay had mounted a sustained assault on the Australian market, launching waves of promotions such as the tazos which had been so successful in other countries. UB had largely seen off the challenge, but at no little cost to profits – and the prospect of a clean exit from the business became irresistible.

"Pepsi offered them a lot of money to go away – and they took it," says Michael Landymore, of Henderson Crosthwaite, the London stockbroker.

UB's decision – welcomed by the markets with a record jump in the company's share price – reflects the intensifying competition in the world's food and drinks markets. In category after category, one or two big global groups are emerging as the dominant forces, elbowing out their smaller competitors and local manufacturers.

In ice cream, it is Unilever and Nestlé slugging it out for dominance in a £25bn-a-year market where sales in emerging economies double every three to five years. The Anglo-Dutch consumer giant paid $930m in October to snap up Kibon, Brazil's largest manufacturer – and both groups are expected to make further acquisitions.

Leading food and beverage companies

	Country	1996 sales (US$bn)
Unilever	UK/the Netherlands	33.953
Nestlé	Switzerland	32.517
Conagra	US	32.405
Sara Lee	US	23.600
Coca-Cola	US	17.179
RJR Nabisco	US	16.794
Compart	Italy	15.923
Group Danone	France	13.277
Archer Daniels Midland	US	11.872
Grand Metropolitan*	UK	11.509

* Now part of Diageo. Source: Fortune

Brew for thought: alcoholic drinks producers now look set for some consolidation

In breakfast cereals, more than half the world market already belongs to Kellogg and Cereal Partners Worldwide, a joint venture between General Mills of the US and Nestlé. Kellogg still has more than 40 per cent of the market, but since its formation in 1990 CPW has taken almost 13 per cent – more in the countries where the two groups compete head to head.

In the carbonated soft drinks market, Coca-Cola retains its 48 per cent share, but PepsiCo, with 22 per cent, is likely to give Coke a harder run for its money now it has spun off its restaurant operation to focus on beverages and snacks.

Until now, the alcoholic drinks industry has remained relatively fragmented despite the global reach of the leading companies and their brands. In spirits and wines, for example, no group has had more than 5 per cent of the branded products market.

That looks set to change with the £23bn merger of Guinness and Grand Metropolitan at the end of last year to form Diageo, the world's largest drinks group. It will have twice the sales of either of its two biggest competitors, Allied Domecq (UK) and Seagram (Canada), and is expected to launch another round of consolidation in the industry.

Diageo expects to find cost-savings of around £200m a year within three years of the merger. But analysts expect further benefits from the marketing and distribution synergies of putting together a portfolio of 14 of the world's top 100 spirit brands - which includes Johnnie Walker scotch whisky, Gordon's gin and Smirnoff vodka.

In the food and drink industries, it is such global brands – backed by enormous budgets for marketing and product development – that increasingly dominate their sectors. And they are becoming more important as trade barriers fall, says Chuck Brymer, chief executive of Interbrand, the global branding group.

"This is a real issue for Latin American companies," he says, "as free trade areas such as Nafta and Mercosur bring greater competition from US brands."

There remains a place for local producers in bringing new products to the market, according to Euromonitor, the market research company. It predicts that the big drinks companies will use products such as *soju* from Korea and *cachaca* from Brazil to enliven stagnant western markets and boost sales.

A recent report from Flemings, the investment bank, suggests brewers in emerging markets are best placed to cash in on the forecast growth in beer sales. With the market in developed countries flat, any growth is likely to be in their domestic bases in Asia, Africa and Latin America.

There are large international brewing groups such as Anheuser-Busch (US), Heineken (the Netherlands) and Carlsberg (Denmark). But there are no true international brands that rank with Johnny Walker, Coca-Cola or Nescafé in the world's consumer markets.

Flemings identifies the fastest-growing brands globally as Castle, produced by South African Breweries, and Brahma, the Brazilian beer. Both are already in the world's top 10 brands and rapidly expanding outside their home countries.

John McGrath, chief executive of Diageo

I believe 1998 will see continuing consolidation in the food and drinks industries. The next phase has started in the drinks business with the merger of Guinness and Grand Metropolitan to form Diageo. It remains to be seen which companies follow suit and what sort of arrangements they make with each other.

I set great store by innovation. I believe the gap will widen between companies that innovate, and those that do not. In the food industry, for example, companies which are stuck in low value-added produce will face serious problems. For the alcoholic drinks industry, there will be even greater marketing investment behind the big global brands.

But the big question for the food and drinks companies in 1998 is whether they can count on the emerging markets to provide growth in product categories which have reached maturity in the developed world. If the economic turmoil in eastern Asia deepens or spreads to Latin America, the ambitions of many global groups could be stalled.

In such circumstances, the competition in North America and Europe will become even more intense – and is likely to lead to more hard-nosed decisions such as that of United Biscuits.

Soccer provides rich rewards for manufacturers and retailers in the form of replica kit which, much to the chagrin of many parents, can change frequently

SPORTS GOODS • by Patrick Harverson

Hurdles are getting higher

Sustaining the success of recent years is likely to prove a tough challenge

A stroll through any busy shopping centre in the US, Europe or Japan on a Saturday afternoon will attest to the extraordinary popularity of branded sportswear in the 1990s.

The huge demand worldwide for brands such as Nike, Reebok and Adidas has contributed to the enormous growth in the sports goods industry over the past 10 years.

In the last decade the worldwide market for sports clothing, shoes and equipment has expanded 75 per cent to become a $130bn-a-year retail business.

However, as any sports team knows, achieving success is one thing...sustaining it is another. Today, there are signs that the peak of the sports goods industry cycle may have already passed. Matching the growth of the recent past will prove a big challenge in 1998.

Behind the concern about the outlook for next year lie two developments.

First, the industry's largest and most developed markets – the US and western Europe – appear to have peaked and may be entering a phase of slower growth.

Evidence of this comes primarily from the discomfort felt by US sports goods companies in their domestic market.

"The big problem for Reebok and Nike is they read the US market wrong," says Rowan Morgan, sports goods analyst at Nikko Securities in London. "We had evidence of Nike cancelling manufacturing contracts many months ago. They and Reebok budgeted for much bigger growth in the US than happened last year, so the market is now awash with their products."

The second cloud on the industry's horizon is the economic turbulence buffeting Asian economies. This is particularly worrying because with growth in the developed markets likely to slow, sports goods companies were looking to expanding Asian markets to maintain the recent momentum.

It may be too early to judge how much damage will be inflicted on the sports good industry by the economic crises in Japan, South Korea and elsewhere, but analysts are clearly worried. "If all these economies are bombing out, then people are just not going to be in a position to shell out the equivalent of £60 for a pair of trainers. So while I think demand will be there, it will be latent demand rather than hard cash on the shop counter," says Mr Morgan.

However, not everyone is so pessimistic. A report from Morgan Stanley Dean Witter, the US investment bank, forecasts the global retail market for sports goods rising by 23 per cent to $159.2bn by 2001. That is roughly the same pace of growth as in the last five years. The forecast is based on the belief that "an expected deceleration of growth in the US, from 33 per cent between 1991 and 1996 to 19 per cent between 1996 and 2001, will likely be offset by other leading markets," says the report.

Certainly, the key factors that have driven the strong growth of the past decade – rising incomes, lifestyle changes, heavy advertising spending and media coverage, and the emergence of sports brands as fashionwear – are unlikely to disappear overnight.

Yet if the troubles in eastern Asia do lead to a general worldwide economic slowdown, the industry will not be able to rely on rising incomes to sustain demand. Also, while the influence of lifestyle changes – such as more participation in sport and active leisure pursuits, and the rise of informal clothing at work and school – may continue to be apparent, they are likely to take longer to impact demand in newer markets where the pace of social change is much slower.

As for the fashion element in sportswear's popularity, it is impossible to predict what will happen next, which is one of the dangers for sports goods companies. Just as sportswear can be come fashionable, so it can become unfashionable.

The big companies claim not to be worried about fashion, and believe the strength of their products' appeal lies in performance and technology, not passing fads. Certainly innovation in sportswear, and shoes and equipment in particular, has been a significant factor behind the past decade's boom. Nike has led the way in shoe technology, while companies such as Callaway in the US have revolutionised the golf equipment market with new technologies, and their R&D spending will continue to grow in 1998 and beyond.

Golf is expected to be the sport that sees the biggest growth in equipment sales during this year – in part due to the extraordinary influence of US star Tiger Woods on young would-be golfers – followed by winter sports, where growth in snowboard sales should help offset the continued slump in alpine ski demand. Tennis equipment, once so strong, will continue to lag behind, suffering from the sport's current lack of popularity among consumers.

If economic forces turn against the industry, heavy spending on promotion and advertising should help soften the impact. Every big company has learned that high-profile, innovative marketing is effective in driving demand, and they continue to spend very large amounts accordingly. Analysts forecast that Nike will spend more than $1bn on advertising and promotion this year, Adidas more than $600m and Reebok about $400m.

The apparently insatiable demand for sports programming, news, information and analysis in the broadcasting, printed and online media will also provide support for the industry.

The soccer World Cup in France next summer, for example, will be as much about a battle of the brands as it will be about which country deserves to be the sport's champion. A lot of kits, boots and footballs can be sold when a cumulative audience of more than 30bn watches the month-long tournament.

Pricing remains an important issue, but few commentators expect margins to come under pressure from price competition. "There is no benefit to the companies of trying to engage in a price war," says Nikko's Mr Morgan. "All that does is drag everybody down. What you will see is higher specification on the product to maintain the price and keep the price-margins structure in place."

However, if intense competition in the industry does lead to something this year it could be further consolidation of the market, along the lines of the upcoming purchase of Salomon, the French sports goods company, by Adidas. The big are likely to get bigger, says Morgan Stanley. "In this fast-changing environment, we believe that other makers may start to consider mergers or tie-ups in order to survive in an increasingly competitive market."

MANUFACTURING • by Peter Marsh

Going international can spread risks

An increasing number of companies are now 'following the customers'

The risks and benefits of going global are among the key areas for decisions in many manufacturing companies. At the heart of this strategy is whether by internationalising their operations they can increase sales and profits, while also minimising their exposure to cyclical downturns.

Other goals, according to a recent study* on globalising in manufacturing by Arthur D. Little, the consultancy, include taking advantage of lower production and delivery costs, reducing currency risks, and meeting the demands for local supply from customers in specific countries.

Perhaps the most important aspect for many companies is that by spreading their sales internationally they can multiply the benefits from set amounts of investment in areas such as product development and manufacturing know-how.

An important consideration is the use of modern information technology systems both to help managers and engineers in geographically diverse areas to work on joint projects, and disseminate as widely as possible the fruits of their work around the operations of the company.

A good example of a company fitting in with these trends is Johnson Controls, a US manufacturer of automotive parts and control systems for buildings.

In the mid-1980s, it took notice of car companies' need to outsource production of vehicle seats, an activity they had until then undertaken mainly at their own plants. Now Johnson produces some $7bn of seats and other car interior parts for cars a year, with much of the growth having resulted from the company following customers such as General Motors and Ford in their own international operations by setting up components factories close to the car-makers' plants.

While Johnson's seats sales are currently split roughly 70:30 between North America and western Europe, Jim Keyes, the chairman, says that by 2000 the company will have "significant" sales in these products in other regions, particularly eastern Europe, South America and east Asia.

Also implementing the "follow your customers" strategy is AMP, the US company which is the world's biggest makers of electrical connectors for industries such as computing, telecommunications, white goods, vehicles and power engineering.

AMP, with sales of more than $5bn a year, started its non-US plants in the 1950s at the behest of customers, including International Business Machines (IBM), which were setting up foreign manufacturing operations. By splitting itself into five main "global product groups" the company hopes to match as fully as possible its customers' requirements with its own internal resources, according to Bill Hudson, AMP's chief executive.

While the goal of reducing labour costs explains many multinationals' efforts to set up plants in low-cost regions such as eastern Europe and China (particularly for supplying local markets such as western Europe and other parts of Asia), most companies realise that, given the tendencies for world manufacturing costs eventually to level out, these moves are essentially no more than short-term strategies.

A more potent approach is to internationalise, either to secure access to new markets which would be difficult to reach from the companies' home base, or to tap technologies that would be difficult to acquire in any other way.

A joint venture between Worthington Industries and Armstrong World Industries, two US engineering companies, is an example of the first stance. In five years it has carved out a 19 per cent share of the European market in ceiling support systems for buildings, a specialist yet fast-growing part of the construction industry.

The two companies came together to set up the first of three European plants in 1992, to capitalise on their previous expertise in supplying the US industry. By the end of the century, the joint venture – called Wave – intends to open more plants in Europe to push their share of the market within the continent to more than one-third, according to Ralph Roberts, Worthington's vice-president in charge of corporate development.

An example of a company branching out into new technology through foreign operations is provided by Cincinnati Milacron, the US machinery company which in the 1990s took over two strategically-important German companies in an effort to widen its product range.

The acquisitions of Ferromatik in 1993 and Widia in 1995 – makers of plastics production machinery and cutting tools respectively – helped the company to move more deeply into these fields and away from its traditional reliance on machine tools. At the same time, according to Dan Meyer, chairman, they helped Cincinnati's switch away from the US as the dominant place for its business.

In 1997, almost half the company's sales of nearly $2bn came from outside the US, up from just one-third in 1990, while over this period the proportion of employees based outside the US has risen from 20 per cent to 40 per cent.

Even given the trends to internationalisation in many companies, according to Arthur D. Little, too few have given sufficient global thought when it comes to component supply – an important field which in many manufacturing companies can account for 50 per cent of total costs.

According to the consultants' study of 25 European companies with 500 plants in 38 countries, only 60 per cent had harmonised most or all of their supply operations, such as through forming lists of global suppliers who could provide components to a number of plants. This is surprising says the consultancy because "in our view all important suppliers should be selected at a global level".

* *Best Practice in Globalising Manufacturing: A Survey of Selected European Companies: Arthur D. Little in co-operation with Technische Hochschule, Darmstadt, Germany.*

Fax-U-Back Information Service

For details of other forthcoming surveys or a list of past surveys, call the FT Fax-U-Back service.

The numbers to call are:

Forthcoming surveys programme: 0990 209 908
(Callers outside the UK dial exit code + 44 990 209 908)

Past surveys index: 0990 209 907

Technical note: Ensure your fax is in polling mode. Users with a handset on their fax machine should dial the Fax-U-Back number and press Start when instructed. Otherwise, dial direct from the fax keyboard, then key Start.

In the event of problems call 0171 873 4378, or outside the UK +44 171 873 4378.

Are all your talents working in concert?

An impressive range of skills can be found in almost every organisation. The challenge, of course, is getting them to perform harmoniously.

Andersen Consulting works to help synchronize all of your vital components: strategy, technology, process and people.

With vast experience in each of these areas, we can help you seamlessly blend individual strengths with collective goals. Because these days, organisations don't perform. Unless they perform together.

ANDERSEN CONSULTING

Visit our web site at www.ac.com